ANNUAL REPORT 2019

Chinasoft International Limited
中軟國際有限公司*

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

* for identification purpose only

Contents

Corporate Information

THE BOARD OF DIRECTORS

Executive Directors

Dr. Chen Yuhong *(Chairman & Chief Executive Officer)*
Dr. Tang Zhenming

Non-executive Directors

Dr. Zhang Yaqin
Mr. Gao Liangyu
Mrs.Gavriella Schuster

Independent non-executive Directors

Mr. Zeng Zhijie
Dr. Lai Guanrong
Professor Mo Lai Lan

REMUNERATION COMMITTEE

Dr. Lai Guanrong *(Chairman)*
Dr. Chen Yuhong
Mr. Zeng Zhijie
Professor Mo Lai Lan

AUDIT COMMITTEE

Professor Mo Lai Lan *(Chairman)*
Mr. Zeng Zhijie
Dr. Lai Guanrong

NOMINATION COMMITTEE

Dr. Lai Guanrong *(Chairman)*
Dr. Chen Yuhong
Mr. Zeng Zhijie
Professor Mo Lai Lan

COMPANY SECRETARY

Ms. Leong Leung Chai Florence

AUTHORISED REPRESENTATIVES

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AUDITOR

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HSBC Bank (China) Company Limited
Citibank (China) Co., Limited
Industrial and Commercial Bank of China Limited
China Construction Bank Corporation
China Merchants Bank Co., Ltd.

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Dear Investors,

Upon the publication of this annual report, there will be more than two million cases of COVID-19 diagnosed worldwide. During this extraordinary period, we thank you for standing firmly alongside the Company as we endure this historical challenge. Thanks to Huawei's SD (Supplier Development) Plan, the Company has made great progress in risk management, especially in business continuity management (BCM). We have remained relentless in operations and maintained our bottom-line thinking methodology to achieve a healthy debt-asset ratio and cashflow. The Company activated level one protocol of BCM as soon as possible to ensure the safety of employees and the continuity of the business. Through our relentless efforts including having employees work remotely, the work resumption rate has reached 50% on February 3rd, and has exceeded 95% by April 10th. During this period, in an email to all employees titled "Leaping in the Year of the Gengzi", I wrote "the only way to remain immune to all poison it to make yourself stronger." This is the case for responding to the epidemic as well as ensuring the healthy development of the Company.

The main theme of the Company in 2019 is "to take on the challenges of 2019, demonstrate our value, and keep pace with the advancement of "wartime Huawei"". During the reporting period, the Company was ranked among Gartner's Top 100 Global ITS Provider (in terms of market share) for the first time in 2018, and together with Huawei Procurement, we confirmed the development vision of becoming the "world's best IT service provider". In March, the Company held its annual board meeting in Shanghai. Company directors including Dr. Zhang Yaqin, Mrs. Gavriella Schuster, Corporate Senior Vice President of Microsoft Global Partners, as well as industry leaders such as Mr. Vishal Sikka, former Infosys CEO and former SAP CTO, agreed with the Company's management team on the vision to seize the opportunities for cloud intelligence transformation, further consolidating the Company's blueprint. At the Annual General Meeting (the "AGM") held in May, the Company's management elaborated on the Company's cloud transformation strategy and its three-year plan: seize the opportunity of cloud native, accelerate digital business, stabilize cornerstone business, upgrade Jointforce platform, and continue to move towards established goals. In June, the Company held its mid-year meeting for core managements. During this meeting, the Company revisited its strategy, and deployed key tasks to achieve the Company's vision. Currently, it seems that we have achieved the goals we announced at the AGM for 2019, and the main progress is as follows:

I. FOCUS ON CLOUD INTELLIGENCE: INCREASE INVESTMENT IN DIGITAL SERVICES, ACCELERATE NON-LINEAR GROWTH DRIVEN BY IP AND ECOSYSTEM

During the reporting period, global cloud infrastructure spending exceeded traditional spending for the first time, creating a historical development opportunity for cloud computing. For this reason, we have formally formed the Cloud Intelligence Group (CIG) and increased our R&D on cloud products, cloud tools, cloud solutions, and cloud native professional services. We will consolidate IP's, integrate ecosystems, accelerate the construction of full-stack service capabilities, achieve the annual goal of cloud smart business revenue, and take a solid step in creating a nonlinear growth driver.

The Company has entered the fast lane of cloud management services, creating a new cloud management service brand, CloudEasy. CloudEasy provides customers with "one-stop" cloud services including consultation, migration, operation and maintenance, value-added development, etc. Through this, we became the earliest digital transformation driver for our customers and was successfully ranked as the Top 3 in the Chinese cloud management services market according to IDC. The Company continued to deepen the cooperation of Huawei Cloud's "sailing on the same boat" and became Huawei Cloud Class 1 distributor in Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, Shaanxi and other key regions. Furthermore, the Company achieved a 10x increase in the sales performance of Huawei Cloud's long-tail customers and was ranked as the number one channel partner for the Huawei Cloud ecosystem. We continued to develop industry solutions including smart parks, smart retail, smart customer service, data governance, smart credit, business factoring cloud, and enterprise cloud disk. Multiple digital office solutions based on WeLink was launched on Huawei Cloud Marketplace" (supporting the Kunpeng structure) and acquired nearly 1,000 paying customers. Our enterprise cloud disk was launched in Huawei's oversea Cloud Marketplace, and we are planning to launch it in Thailand and Mexico. In addition, a variety of SaaS such as "Zker" Academy were launched on Huawei Cloud Smart Work Platform, WeLink. Lastly, we introduced solutions such as the rail ticketing cloud based on Kunpeng to the market and received good reviews.

During the reporting period, the Company's strategic cooperation with Huawei continued to strengthen as the Company actively participated in the construction of Kunpeng and HMS ecosystems. The Company became the first batch of Huawei Kunpeng Cloud strategic partners and carried out in-depth cooperation in Kunpeng migration professional service, Kunpeng joint laboratory, and Kunpeng talent training. Currently, our Kunpeng expert service has covered more than 30 industry scenarios, has practical experience in 500+ component migration and implementation, and has contributed to more than 400 cases of technical best practices. Furthermore, we have co-built Kunpeng Innovation Lab and Artificial Intelligence Innovation Center in Xi'an and Chongqing with Huawei and established an Intelligent Innovation laboratory and a training base for intelligent talent training. We accelerated the promotion of Kunpeng cloud business in multiple regions, accelerated the standardization and productization of operational services, and deepened bilateral cooperation with Huawei and local governments. During the reporting period, we became the best supplier for the annual framework of Huawei's consumer business group, participated in the research and development of 17 core functions in HMS Core 4.0, and continued to provide high-quality services for HMS upgrades.

During the reporting period, the Company clearly defined the strategic position of its data business with emphasis on "open source cloudization" and "trusted digitalization" capabilities, increase investment in IP's, accelerate the promotion of enterprise-level digital planning and implementation capabilities based on the concepts of technology center, business center, and data center, and help companies build comprehensive digital and intelligent support platforms and operating systems. Lastly, we will continue to focus on industries such as administrative government, smart cities, police services, transportation, manufacturing, and finance, construct the industrial benchmark and duplicate it rapidly, capture the dividends from digital economy continuously.

II. IMPROVE BUSINESS QUALITY AND SERVICE VALUE: CONTINUE TO INNOVATE AS CATALYST FOR CORNERSTONE BUSINESS DEVELOPMENTS

Our goal for the cornerstone business at the beginning of the year is to "provide RMB10 billion worth of quality and valuable services." During the reporting period, our Huawei business overcame business volatility to focus on building capabilities and improving business qualities. Taking advantage of the SD program with Huawei, we continuously improved service quality, service value and management capabilities, and strengthened process-oriented organization construction. In November, we successfully passed the annual SD evaluation from Huawei's expert team, and made great progress in business matching, service implementation, risk management, technical capabilities, human resource management, and innovation. At the same time, we leveraged what we learned in the SD program and exported that knowledge to other large customers. We will focus on BAT (Baidu, Alibaba, Tencent), Ping An, China Mobile, etc., and turn them into large customers with revenue contributions of more than USD100 million. We will use the SD program's requirement as standards for our cornerstone business and become our customers' credible partner.

"Renovate the traditional businesses with Jointforce platform" is the innovative development idea determined by the Company at the upper management meeting at the beginning of the year. During the reporting period, we officially launched a human resource outsourcing service for medium to long tail customers on the Jointforce platform - "Plan Z". "Plan Z" outputs our Company's outsourcing business management capabilities in the form of SaaS services, including full-process management of recruitment, human resource management, etc., as well as reducing labor costs and management scope, overall improving service experience. "Plan Z" fits well with the fragmented demand of the medium to long tail market. It helps small to medium-sized enterprises to achieve flexible employment and idle resource utilization, and is highly recognised by the market. More than 700 suppliers have settled in the zone, with a total contract value of over RMB300 million. Currently, the utilization of "Plan Z" is increasing through the Jointforce platform, helping realize transformation of mid-long tail outsourcing from cornerstone business to platform business.

III. PUSH THE "CLOUD INTEGRATIVE SERVICE" WITH FULL EFFORT ON MARKETING: UPGRADING JOINTFORCE PLATFORM TO BECOME THE INDUSTRIAL INTERNET OF CUSTOMIZABLE SOFTWARE

After a year of market validation and improvement, the "Cloud Integrative Service" has evolved to be optimal for application scenario of centralized management, from service products to supporting operations. It is also highly recognised by governments nationwide and possesses a market influence that continues to expand. In 2019, the "Cloud Integrative Service" signed with 10 cities across the country, serving a total of more than 2,400 government IT projects. Nanjing's "Cloud Integrative Service" achieved remarkable operating results, completing 855 projects throughout the year, with transaction value over hundreds of millions of RMB, reducing over 5% costs, and significantly improving procurement efficiency. Based on the practical experience of the "Cloud Integrative Service" in the past two years and the profound accumulation of Jointforce platform's ecosystem, Jointforce platform is being fully upgraded to the Industrial Internet for software customization. We are developing a bilateral market for the digital transformation of government and enterprises, and making full efforts to enter the blue sea of Internet IT outsourcing market.

Chairman's Letter

To our dearest investors: As you may recall, in 2003, we were the first company to list in the Hong Kong Stock Exchange after SARS. Our Company only had RMB50 million in sales revenue. After 16 years of development, we have become one of the leading Chinese IT service enterprises with sales revenue of over RMB10 billion. As the saying goes, "Infinite scenery at the dangerous peak". Therefore, we firmly believe that China will be stronger after this pandemic. As digitization process of the government and enterprise industry accelerates, and as 5G and AI technology lead the new infrastructure, it will bring more opportunities to the digital economy!

Faced with new circumstances, especially the severe threat of internal and external BCM, our Company has identified seven key points for its development in 2020. First, we would like to serve Huawei and major key account (KA) customers to "control risks" and become the main force of its flexible human resource allocation, continue to build and improve capabilities around SD, and greatly improve the performance of R&D outsourcing suppliers. Secondly, we will seize the national "information technology innovation" strategic opportunity, help Huawei in areas needed, become a new force of Kunpeng and Hongmeng ecosystem, and realize the absolute success of the "sailing on the same boat" cooperation. Third, we will accelerate the development and cultivation of key account (KA) customers to complete the ecological strategic cooperation layout, replicate Huawei's business model (through outsourcing and solution services) to become KA's main ecological partner, and achieve the development goal of acquiring customers with more than USD100 million contribution. Fourth, we will improve our Company's consultation, solutions and professional services, consolidate service capacity, upgrade the service catalog, and help large customers and "large particle" solutions achieve major growths. Fifth, we will establish the positioning of the Jointforce platform in customizable software Industrial Internet industry, optimize our organization and talents, hard-core polish our products, improve operational efficiency, accelerate the precipitation of data assets and accumulate customer traffic, and gain mainstream market recognition. Sixth, we will accelerate the construction of a process-oriented organization, focus on ensuring three types of processes including business, enablement and support, strengthen the risk management system and compliance system, and ensure absolute safety of business continuity. Seventh and lastly, through the DSTE (Develop Strategy to Execution) process, we will continuously review the nature of new business, adjust and determine our Company's transformation and innovation, R&D investment, acquisition and merger strategies and plans, build supporting product lines, and ensure adequate reserves of growth assets.

Dear investors, we are facing superimposed dangers and superimposed opportunities at the same time, giving us the opportunity to live to the fullest. I look forward to taking on the fierce challenges of 2020 together!

Chairman
Chen Yuhong
Spring 2020

1. KEY LINES OF BUSINESS

Founded in 2000, the Company is a large-scale integrated software and information service provider, providing "end-to-end" IT services to customers worldwide. Since going public in 2003, the Company has always been committed to become a world-class information technology service leader. Its business has achieved rapid growth for 17 consecutive years and continues to lead the domestic software service industry. The Company is ranked 14th in the "Top 100 Chinese Software Business Companies (in terms of revenue)" by the Ministry of Industry and Information Technology in 2019, No. 10 in the "Top 100 Comprehensive Competitiveness of Software and Information Technology Services in 2019", and successfully ranked among Top 100 in Gartner's "IT service market share, worldwide" with more than RMB10 billion service income.

The Company has more than 300 software copyrights and patents, providing customers with "end-to-end" IT services. It has rich consultation, design, implementation and service experiences in the digital application of new technologies including cloud computation, big data, artificial intelligence, Internet of Things, and mobile Internet, comprehensively helping customers to achieve digital transformation. It serves customers including many Fortune 500 companies and many high-growth potential industry leading customers in industries including finance, telecommunications, Internet and high technology, government, manufacturing and circulation, public utilities (transportation, energy), education, etc. In addition to China, the Company has operations in Asia Pacific, North America, Europe, and Latin America.

- **Technology Professional Services Group（TPG）**

  TPG provides technical services and solutions to large customers and industries. Adhering to its consultation driven methodology, the Company uses its self-developed software platform, with mature project management skills and human resource capabilities, training a large number of industry experts and technical experts. The Company has deep technical application accumulation in cloud computation, big data, artificial intelligence, Internet of Things, mobile Internet etc. And the Company is an important partner for customers' digital transformation, with key customers include Huawei, HSBC, Ping An, Bank of Communications, China Construction Bank, Microsoft, GE, Tencent, Ali, Baidu, China Mobile, China Telecom, etc. Furthermore, it is reputable in industries such as finance, telecommunications, high technology, government, manufacturing and circulation, and public utilities (transportation, energy).

  In recent years, TPG has seized the development opportunities of customers' digital transformation, made full use of the accumulated advantages of the existing industry know-hows, focused on digital transformation services, accumulated a lot of practical digital transformation experiences, and launched the "CloudEasy Cloud Manager" service. The "CloudEasy Cloud Manager" was introduced through the mature cloud service capabilities of Catapult, the Company's North American subsidiary. The Company's expert team successfully replicated this service to multiple mainstream cloud platforms such as Huawei Cloud and Tencent Cloud to provide customers with one-stop cloud services, including cloud consultation, cloud migration, cloud operation and maintenance management, cloud application development and integration, and cloud solutions. Among them, the cloud management service was successfully ranked as the Top 3 in the CMS Market in China according to IDC. Cloud product and solution capabilities have also achieved rapid breakthroughs. Based on the advantages of existing products and solutions, the Company has successfully achieved cloudification of products and solutions in manufacturing, finance, and transportation industries. Furthermore, it has also expanded a number of new application industries and scenarios. The existing cloud products and solutions include:

– Products: ResourceOne (R1) middleware platform, cloud management platform;

– Finance: smart customer service, smart factoring, internet smart credit, etc.;

– Manufacturing: logistics route optimization, smart retail, etc.;

– Transportation: Rail transit ticket cloud;

– Education: Smart education;

– Park: Smart Park;

– General Solutions: Enterprise cloud disk, digital workplace, data governance, DevOps.

Huawei's business, financial business, telecommunications business, Internet business, high-tech business, etc. are the key businesses of TPG which are highly recognised by customers. The Company provides customers with software platform services, strategy, business and IT consulting, big data products and services, industry and general application software and solution development, mobile Internet and terminal product development services, product engineering, application development and management services, enterprise application services, system integration and services, service outsourcing, business process outsourcing (BPO), and other IT services in order to meet the customer's IT, digital, and intelligent needs. TPG has continuously invested in research and development for many years, and has deep cultivation into industry solutions. Standardized products and solutions accumulated include:

– Products: TopLink/TSA + platform, big data middleware products (ARK);

– Finance: Payment and clearing system, bank card system, credit business system, risk control system, etc.;

– Telecommunications: Mobile payments, mobile instant messaging, mobile communities, etc.;

– Internet: Product development, e-commerce, UI design, web development, etc.

– High technology: Globalization, offshore delivery centers, etc.;

– Government: Audit and supervision management, social insurance and welfare management, state-owned asset management, etc.;

– Manufacturing and circulation: Manufacturing Execution System (MES), Enterprise Application Integration (EAI), Logistics Execution System (LES), etc.;

– Transportation: Automatic Fare Collection (AFC), Automatic Clearing Center (ACC), airport flight inquiry system products, etc.;

– General Solution: Customer Relationship Management (CRM), Office Automation (OA), Business Intelligence (BI).

Among them, solutions such as payment and clearing systems and bank card systems have been leading the banking market for many years according to IDC. Furthermore, auditing solution ranks the first in the auditing market for many years according to IDC. Lastly, many solutions such as Manufacturing Execution System (MES) and Automatic Clearing Center (ACC) system have also ranked the first in market share for many years.

- **Internet IT Services Group (IIG)**

IIG is targeted at the long-tail customers based on Jointforce platform as the core vehicle. Jointforce is an online IT crowdsourcing platform that provides online transaction and software development management services, matching, coordinating and guaranteeing service providers (contracting companies) and engineers stationed on the platform to provide quality IT services to customers (outsourcing companies). Jointforce promotes accurate and fast matching of the software supply and demand side, introduces software asset management capabilities, and solves the problem of an extremely fragmented IT service market in China. Since its commercial use in June 2015, Jointforce has continuously iterated and explored new business models, and further upgraded to a business platform including Cloud Integrative Service, “Plan Z” and Cloud Software Park.

The Cloud Integrative Service is a service cloud platform built around the four core capabilities of procurement transactions, digital supervision, service aggregation, and supplier big data. It provides government IT service projects with the entire cycle and process from tendering and bidding, project delivery, and online software asset management service. Furthermore, it shortens government procurement cycles, standardizes software asset management, and improves delivery quality. In 2019, the Cloud Integrative Service launched dedicated environmental services and a new SaaS cloud for digital supervision and full-process management, with unified construction and centralized management, to build scenario-based, information-based, full-process and butler-type services.

"Plan Z" is a brand-new manpower outsourcing service based on Jointforce. It uses Jointforce's vision to upgrade the traditional outsourcing model to meet the IT service needs of middle and long tail customers. "Plan Z" connects software vendors on the supply side (small outsourcing companies) and customers on the demand side, responds quickly to solve the problems of flexible employment from the enterprise and optimizes human resources, and precipitates outsourcing capabilities into human resources SaaS services. The Jointforce platform also plans to expand services such as IT management empowerment and bank credits.

Cloud Software Park uses Jointforce and Software Development Cloud as carriers to provide software services and cloud development tools for enterprises in the park. Through training and promotion, it empowers the enterprises in the park, promotes enterprises to use the cloud, and promotes the integration and development of software services on the cloud and the physical park. Cloud Software Park pushes online business opportunities to enterprises in the park through Jointforce, and helps companies in the park to get market promotion. It becomes a crowdsourcing platform that connects government, physical software parks, and IT service providers. Led by the Jointforce ecosystem, it attracts more small and medium-sized enterprises to open offline in a physical software park, which further greatly enhances the park's software ecosystem. In addition, there is a large demand for enterprise cloud adoption in the software park. Based on this demand and existing practices, the Company quickly built a professional team to build Huawei Cloud abilities such as consulting, incubation, enablement etc. and deployed the team to key areas such as Beijing, Shanghai, Fujian, and Shaanxi. The teams will quickly replicate the cooperation model of the "Industry Cloud + Huawei Cloud", and provide cloud-based professional services for enterprises in the park.

2. CORPORATE STRATEGY

In the wave of accelerated digital transformation, facing the increasing unfavorable conditions of external environment and increasing downward pressure of the economy, the Company maintained strategic determination, seized the opportunity for transformation and development, improved management and operation, continued to cultivate large customers (customers that can contribute over USD$100 million), consolidated the cornerstone business, which is mainly based on technical professional services and solutions, and accelerated the expansion of digital business represented by cloud intelligence. The Company will continue to use its domestic presence as base to expand globally, adhering to its ideology of "drawing the blueprint to the end".

- **For Large Customers: SD to Drive Business Development, Improve Quality, and Demonstrate Value**

  Technical professional services and solutions are the cornerstone business of the Company, and its revenues mainly come from long-term cooperation with strategic large customers such as Huawei, HSBC, Microsoft, Ping An, Tencent, Ali, Baidu, China Mobile, China Telecom, Bank of Communications and etc. When the business revenue exceeded RMB10 billion, the Company re-evaluated this mature business and set the goal to provide customers with more valuable and quality services. The Company has entered Huawei's "Supplier Development Plan" (SD) for more than a year, and has made considerable progress in business continuity, management capabilities, technical capabilities, process organization and construction, talents and innovation. The customers satisfaction rate continues to rise. In the future, the Company will continue to seize this excellent opportunity, use SD to drive the Company's business development, fully benchmark the SD system requirements, invest resources to make up for shortcomings, improve the Company's service quality and service value, and ultimately reach the industry-leading level.

- **Facing Middle and Long-Tail Customers: Transforming Business with Jointforce, Achieving Business Model Transformation and Upgrade**

  In recent years, the demand for IT outsourcing for middle and long tail customers has been increasing. The Company transformed the traditional cornerstone business with the idea of Jointforce, and promoted its transformation and upgrade to an Internet-based and platform-based innovative business. Through the implementation of the "Plan Z", the Company launched a human resources service on Jointforce, using the Company's accumulated outsourcing experience from recruitment process management, human resources delivery quality management to turn this into a SaaS service. Through this, Jointforce successfully gives its vendors different abilities to realize its needs. Lastly, the supply and demand side will meet through Jointforce, which not only solved the problem of flexible employment of suppliers and the optimization of idle resources, but also met the service needs of middle and long-tail customers.

- **Focusing on Cloud Native: Starting from Cloud Management Services, Creating a New Growth Potential for Full-Stack Cloud Intelligent Services**

  Cloud computation is the fastest-growing field in the IT industry in recent years. The industry supply chain continued to form and had became the foundation and accelerator for digital transformation. The Company increased investment in cloud business, combining with the Jointforce ecosystem, and built a full-stack service capability. At the IaaS level, the Company promotes in-depth cooperation with cloud service providers including Huawei Kunpeng Cloud, Microsoft Azure, and Tencent Cloud to consolidate and strengthen multi-cloud management service capabilities such as cloud consultation, cloud migration, professional implementation, and cloud operation and maintenance to create a base for digital business. At the PaaS level, based on industry services accumulation, the Company continued to build industry APaaS to better support itself and the ecosystem. Furthermore, based on 20 years of software engineering experience, the Company continued to build cloud-native application service capabilities such as DevOps and Jointforce ADM. At the SaaS level, the Company increased investment in product development and solution cloudification, strengthened the cloud management platform, and launched the "Cloud Integrative" service and scenario-based applications in financial, workplace, park, retail, and transportation industries, bringing the Company subscription-based revenue.

- **Break Through the Big Data Value-Add Bottleneck, Build New Momentum for Transformation and Upgrade, Be a Data Craftsman in the Age of Artificial Intelligence**

  The Company has built a cross-industry big data service capability advantage, established strategic partnerships with Internet leaders such as Baidu, and successfully implemented technology application scenarios such as AI, building an "end-to-end" service capability. In the future, the Company will continue to lead the transformation of big data technology and firmly implement the strategy of "focusing on the industry" and "deep cultivation solutions". In leading industries such as finance, the Company will continue to expand cooperation and accelerate data platform planning and data service productization. Moreover, in high-growth industries including transportation, real estate, government etc., the Company will form solutions, replicate them, and grab market shares to become leaders in those industries. The Company will also accelerate the expansion of other high-potential customers in high-tech and manufacturing (automotive) industry. The Company will provide customers with comprehensive data services and decision support, help customers to build a solid enterprise-level data infrastructure, and realize new profits in the era of enterprise digitalization and artificial intelligence.

- **Jointforce Aggregates Resources, Empowers Enterprises, and Builds an Industrial Internet platform in the Software Development Field**

  Jointforce carries the new mission of high-quality development of the software industry, aiming to transform the software industry itself. Jointforce connects all parties of the ecological chain to a software industry Internet platform to solve many problems such as long software development cycle, large development volume, low code reuse rate, and resource mismatch between supply and demand side. Jointforce helps enterprises to realize efficient, cost efficient IT services. The Jointforce platform has been officially commercialized for four and a half years, forming a cloud ecosystem focused on software development. It has accumulated a large number of ecological resources, and the "Cloud Integrative" service launched for government IT has entered the stage of rapid replication. In the future, Jointforce will continue to improve its business model, form digital operation capabilities, accelerate the optimization of the service. Jointforce will integrate transactions, services and data to create an software development focused industrial Internet platform, build a new software industry ecosystem and open up a new digital economy "blue sea".

- **Follow the Trend of Globalization, Take advantage of the "Belt and Road" Initiative to Accelerate Global Blueprint and Achieve Leapfrog Development**

  The major development strategy of "Belt and Road" is essentially a systematic upgrade and output of urbanization experience with Chinese characteristics. It is a major strategic opportunity driven by multiple markets. Almost all the countries along the "Belt and Road" initiative have proposed their own national digital plans, which are used to integrate, drive and promote the urbanization process of each country. The digital "Belt and Road" is a huge business opportunity to form a comprehensive solution for "Digital China".

  The Company now has a number of Fortune 500 customers including Huawei, HSBC, Microsoft, GE, etc., and has provided information technology services to customers in 32 countries around the world and accumulated a lot of experience in serving international clients. Taking advantage of the digital "Belt and Road" tailwind, the Company will combine product and industry cooperation with Huawei to accelerate overseas development. Leveraging on global strategic centers in China, the United States, Mexico, Romania, Japan, India, Malaysia, etc., the Company will continue its global blueprint. In the future, it plans to build global centers in Russia, Egypt, etc. The Company will use cloud-driven digital transformation services to complete the basic global full-service layout, become a world-class ITS company, and build a global IT presence in China.

3. RECENT DEVELOPMENT HIGHLIGHTS

- The Company successfully passed the assessment of Huawei's Supplier Development Plan (SD) and moved towards a world-class supplier. According to the SD, the Company has set up 5 major project groups, formed and tackled 111 projects one by one. The Company has improved in 12 areas including business matching, cultural matching, project management, human resources, quality system, technical capabilities, innovation, risk management, competitive advantage, etc. Among them, five areas have been improved by more than 30% and are fully recognised by the customers. Driven by the SD, the Company has made great progress in business continuity, management capabilities, technical capabilities, process organization construction, talents and innovation.

- Jointforce has entered the stage of increased marketing and promotion. "Plan Z" has achieved initial success of cornerstone businesses transforming. "Cloud Integrative" service has signed new contracts in 10 cities across the country, serving a total of more than 2,400 informatization government projects, involving more than RMB1 billion in projects, continuing to provide service to more than 500 customers of government. Nanjing' "Cloud Integrative" service operating results have been remarkable, and it has become an effective supplement to the government procurement model of Nanjing's informatization projects, helping government saving its financial capital of more than 5%. There were 855 transactions in 2019 in Nanjing, involving a project value of RMB365 million yuan, covering more than 70% of the city's IT projects, and the procurement efficiency was significantly improved. As of the end of 2019, the "Plan Z" has signed on over 700 suppliers, and the total amount of outsourcing for the entire year has exceeded RMB310 million, more than 300,000 resumes on the platform with 62% demand satisfaction. The product continues to strive, and the advantages and experiences accumulated in the outsourcing field are rapidly demonstrated to realize the core product capabilities of the SaaS service model.

- The Company's full-stack cloud intelligent services continue to develop and grow rapidly. The Company actively introduced the cloud service experience of Catapult, a U.S. subsidiary, and the performance of cloud management services was outstanding. The cloud solution capabilities have reached a new level. In the report published by IDC in 2019 that revealed the 2018 Cloud Managed Services market share, the Company was ranked in the top 3. The Company received Huawei HCIP, Azure, and Tencent TCE certifications, with nearly 200 industry experts on board. The Company continued to deepen Huawei Cloud's "sailing on the same boat" cooperation. With the help of Catapult's cloud management service capabilities, the Company has launched a cloud management service platform in China to provide services and support for nearly a hundred Huawei cloud customers. At the same time, it has expanded the global market with Catapult in India, Mexico and other places. The Company received Huawei CSSP certification, and its cloud service capabilities on the PaaS layer have been greatly improved. Together with Huawei, it has developed a DevOps joint solution. The Company's products and solutions such as smart retail, smart parks, smart customer service and data management are launched on Huawei "Selected Market". The Company has obtained Huawei Cloud Tier 1 distributor status in key regions such as Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, and Shaanxi. The sales of middle and long-tail customers of Huawei Cloud achieved a 10-fold increase and is comprehensively ranked the first in Huawei's ecological omni-channel. In the overseas market, the Company has partnered with Microsoft to successfully implement multiple Azure cloud application migration and Power Platform projects in Southeast Asia. In addition, Catapult's business expanded to Canada, Central and South America and other regions based on the original US market. Revenue from subscription services grew rapidly, and revenue from "solutions as a service" hit a record high.

- Building together with Huawei, Kunpeng and HMS ecosystem reached remarkable results. Based on the cooperation on Kunpeng, the Company and Huawei have jointly created Kunpeng ecological full-stack service capabilities in professional services, joint solutions, joint laboratories, industrial cloud operations, and personnel training. It is the first batch of "Huawei Cloud Kunpeng Lingyun Partner Program" Ecological partners. The Company and Huawei Clound jointly created the Huawei Kunpeng Expert Migration Service. Currently, it covers more than 30 industry scenarios, and have completed the migration and implementation of more than 500 modules and contributed more than 400 implementations. The Company and Huawei jointly released the Kunpeng based Rail Transit Ticketing Cloud and to achieve Kunpeng compatibility test certification for multiple solutions. The Company cooperated with Huawei in Chongqing Kunpeng Computing Industry Ecological Operation Center, built Kunpeng laboratory, application system Kunpeng conversion platform, etc., and successfully set up Kunpeng Joint Innovation Lab and Artificial Intelligence Innovation Center in Xi'an and Chongqing, to make technical breakthroughs. The Company comprehensively reached, linked and enabled the software industry through the Jointforce platform, helping to grow the Kunpeng ecosystem. At the same time, the Company cooperated with Huawei to build the Kunpeng education ecosystem, established an intelligent joint innovation laboratory and a training base for smart talents, and cooperated with well-known universities such as Xiamen University and Fuzhou University to develop the Kunpeng curriculum which is targeted at government, enterprises, industry experts, and university leaders. Furthermore, the Company successfully held the Huawei Kunpeng Service Training in Shenzhen, Shaanxi, Fujian and other places. Based on the cooperation of HMS, the Company fully supported the research and development of 17 core functions in Huawei HMS Core 4.0, which is highly recognised by Huawei. In the future, it will continue to provide services for Huawei HMS upgrade and iteration to support the global ecological development of HMS.

- The Company's big data business continues to consolidate its existing advantages in the fields of transportation, manufacturing, finance, and government affairs. The industry solutions are continuously enriched, and data asset management products are increasingly perfected. The Company successfully completed the construction of the intelligent data center of Beijing Daxing International Airport, set the benchmark for domestic and global airport digitalization and data center construction, and further established the leading position of the Company's big data business in the field of airports and civil aviation. At the same time, the Company actively expanded in the railway and highway industry, providing customers with intelligent data platforms, master data governance, and business mid-stage application development services. Lastly, in the fields of transportation, manufacturing, real estate, government affairs and etc., the Company quickly replicated its success and won bids and recognition of multiple key projects.

- The Company's application of artificial intelligence technology has made significant breakthroughs in the field of pan-finance and the Internet and has been widely used in its Japanese business. In the field of pan-finance, the Company assisted customers in the implementation of technology strategy and business innovation, and successfully implemented a number of key projects such as smart mobile banking, smart anti-fraud, pocket bank AI steward, "AI account manager", "OMO empowerment", and OCR solutions. In addition, the Company's intelligent customer service, data asset management, and real-time anti-fraud products have passed Huawei Kunpeng and Gauss database compatibility test certifications, and have gained a wider market opportunity. In the Internet field, the Company signed a cooperation agreement with Baidu's intelligent autonomous driving business group, focusing on the application of AI technology in core application scenarios. The Company also became Baidu's top supplier for Du Xiaoman's voice annotation service. In the Japanese lines of business, the Company has continued to promote the intelligent character recognition (ICR) applications, and achieved more than 90% of business applications such as artificial intelligence technology innovation and ICR.

4. KEY ACCOMPLISHMENTS

- **Jointforce**

During the reporting period, Jointforce continued to innovate the traditional operation mode and optimized product functions and user experiences. At the time of writing this report, there are over 440,000 engineers, 27,000 service providers, and 59,000 contracting enterprises on the platform. The accumulated volume of job posted on the Jointforce platform has exceeded RMB5 billion. The Jointforce has also completed over 13,000 enterprises digital profiling. Based on its strong foundation, the Jointforce platform is undergoing a comprehensive upgrade for the customized software industry, working with government and enterprises to tackle the digital transformation market. Lastly, Jointforce has fully entered into the blue sea market of Internet IT outsourcing.

During the reporting period, the Jointforce platform continued to be optimized and upgraded, and new services were launched. Jointforce launched online advertising marketing to help customers achieve one-stop global communication. Jointforce continued to optimize AI big data intelligent recommendation system to version 4.0, improving accuracy by 5%, and increasing order conversion rate by 10%. Furthermore, Jointforce upgraded its platform user rules, and increased user activity by 40%. The online management of the project's entire life cycle has been comprehensively upgraded to further optimize the digital experience from project establishment, recruitment, execution, and acceptance. The Company launched a digital business platform, focusing on the three core fundaments of order, customer management, and users to continuously support business development. This improved management efficiency by 30%, and reduced staff costs by 40%. Jointforce launched the "Plan Z" service for the human resource outsourcing, and launched the entire LTC visual management process from "business opportunity management" to "settlement management", providing outsourcing service providers with demand management, CV analysis, job matching, performance attendance, online settlement and other manpower resource services, which are all core capabilities of SaaS product. As of the end of 2019, it has more than 700 suppliers and the total amount of the "Plan Z" has exceeded RMB310 million, more than 300,000 resumes on the platform with 62% demand satisfaction.

During the reporting period, Jointforce's "Cloud Integrative" service was launched in 10 cities including Chengdu, Chongqing, Wuhan, Jinan, and Changsha, totaling over 2,400 projects and over RMB1 billion. The operational results in Nanjing and Xi'an have exceeded expectation. In Nanjing, over 70% of the city's IT projects have been covered, and more than 90% of IT service project procurement has been covered. At the same time, the "Cloud Integrative" supervision model have been promoted effectively in Nanjing. With its offline + online innovative service model, it has served 40 projects with a total value of more than RMB100 million.

During the reporting period, Joinforce Cloud Software Park was adopted in Guangzhou, serving a total of 13 city software parks. Based on the cloud service model, all the online platforms of the park were completed. At the same time, the "three database and four platforms" function has been deployed in 7 parks.

During the reporting period, Jointforce launched extensive external cooperation and cooperated with AI big data companies such as Xiaoi I Robot and InnoTREE to jointly expand the field of intelligent open platforms. The Company cooperated with the China Software Industry Association to jointly build a service quality control and service credit system for the Chinese software industry. Furthermore, they built a big data platform centered on supplier credit, experts and solutions. Lastly, the Company signed strategic cooperation agreements with National Sports Intelligence and China Mobile IoT to deepen the cooperation in the field of national smart sports information services and Internet of Things.

- **Cloud**

During the reporting period, the Company used the Design Thinking (DT) method at the core and professional digital transformation consultation as the starting point. It dug deep into the customer's business pain points and successfully built end-to-end services from cloud consultation, cloud migration, cloud implementation, cloud development to cloud management. The Company developed industry solutions based on industry characteristics to build the company's future growth foundation for long-term profitability.

During the reporting period, the Company made significant breakthroughs in cloud management with the help of overseas Catapult's cloud service capabilities. The Company's Exchange and Oracle cloud development services, Huawei Cloud disaster recovery service and other solutions have entered the marketing and promotion stage, while consolidating the abilities to serve large customers. The Company completed project delivery for top dairy companies, communication tower infrastructure companies, and investment banks. Lastly, the cloud management service platform V1.0 was successfully launched, covering functions such as cloud management, cloud monitoring, cloud operation and maintenance, and cloud optimization, serving nearly a hundred Huawei Cloud customers, which can help enterprises reduce operating costs by nearly 30%.

During the reporting period, the Company's cloud products and cloud solutions capabilities significantly improved. In terms of cloud products, the enterprise cloud disk ranked fourth in sales of Huawei Cloud Marketplace. This product was launched in Huawei Cloud Marktplace International, and the Company is actively deploying this product in Thailand and Mexico. In terms of cloud solutions, the Company focused on existing vertical industry experience and general capabilities to create solutions including smart parks, smart retail, ticket cloud, enterprise cloud disk, digital office etc., among the smart park has entered Huawei Cloud Marketplace. The Company also released solutions in niche markets of industrial park and real estate park, and successfully won the bids of smart park projects such as Xiong'an and Yizhuang. Smart retail has also been deployed in Huawei Cloud Marketplace and has formed sales leads in tens of millions. In addition, the Company also worked with Huawei to create a "Huawei DevOps product + ChinaSoft DevOps service" joint solution. The Company completed the successful delivery of power technology research projects for top enterprise and achieve a huge breakthrough from 0 to 1.

During the reporting period, the Company cooperated with cloud service providers such as Huawei, Tencent and Microsoft to vigorously develop a multi-cloud ecosystem. Nearly 200 experts have been certified by Huawei HCIP, Tencent TCE, and Microsoft Azure. The Company became one of the first partners to join the "Huawei Kunpeng Cloud Partner Program" and jointly created a migration expert service with Huawei, which has covered more than 30 industry scenarios, migrated more than 500 modules, and contributed more than 400 best benchmarked technical practices. The Company jointly released rail transit ticket cloud based on Kunpeng with Huawei, and the solution passed Kunpeng's compatibility test certification. The Company established Kunpeng Joint Innovation Lab and Artificial Intelligence Innovation Center with Huawei in Xi'an and Chongqing to jointly make technological breakthroughs. The Company also set up Kunpeng Computing Industry Ecological Operation Center with Huawei in Chongqing, built Kunpeng Lab and application system, Kunpeng transformation platform, and provided local operation and maintenance and technical support services. In addition, the Company continued to deepen its cooperation with Huawei Cloud to become the gold cloud service provider of Huawei Cloud Services. It obtained Huawei Cloud Tier 1 distributor status in key areas such as Beijing and Shanghai and was awarded the "Best Partner Award", "Best Industrial Cooperation Award" and "Huawei Cloud Ecological Partner Award" in Jiangsu, Zhejiang, and Shanghai. The Company continued to deepen its cooperation with Tencent Cloud, and its cloud business and team size grew steadily, becoming the official regional authorized service center designated by Tencent Cloud. The Company expanded its cooperation with Microsoft Azure Cloud to build Azure cloud application migration and cloud solutions, and worked with Singapore power company Senoko Energy to develop Microsoft cloud application development projects. The Company became Singapore's local Microsoft PowerPlatform cloud application development partner.

- **Big Data**

  During the reporting period, the Company's big data business firmly followed the Company's innovation and transformation strategy, and further strengthened the Company's internal coordination and ecological cooperation. In transportation, manufacturing, real estate, government affairs, etc., the Company accelerated and replicated its competitive advantages to become the key driver in the Company's cloud and digital transformation strategy. The Company continued to invest in big data research and development, industry solutions, and to continuously improved its data asset management products.

  During the reporting period, the Company continued to explore new project opportunities and deepen customers cooperation based on its dominant brands in the financial big data engineering service market. In the field of banking, the Company continued to focus on joint-stock banks, city commercial banks, and rural commercial banks, and provided customers with data platform, data governance, risk and supervision and other solution services. The Company combined promising technologies including data platforms to guide the customers to undergo digital transformation. The Company has won multiple bids for bank customer projects, including data governance consulting for a "new first-tier city" commercial bank, pre-construction consulting of customer data platform for two medium-sized commercial bank customers, and optimization and construction of platforms, data marts, risk management, intelligent auditing and regulatory reporting applications for various large and medium-sized city banks and rural commercial banks. In the field of insurance, based on the Company's industry accumulation and customer cultivation, it provided customers with solutions and services such as insurance data center, data resource management, data governance and business data mining analysis, and successfully deployed and implemented multiple major customer projects.

In the field of securities, the Company maintained its leading position in data services and platform construction, actively expanded STAR Market and investment and financing businesses, reached strategic cooperation with customers, and explored data intelligent innovation models that supported the deep reform of China's capital market. Lastly, the Company continued to build and improve digital infrastructure for the industry's core institutional customers, developed industry regulatory data applications, and established industry benchmarks in cloud-based information service platforms and technology regulatory information platforms.

During the reporting period, the Company's big data business focused on the big transportation industry. It has been steadily working in many subdivisions such as airports, railways and highways, providing customers with intelligent data platforms, master data management, and business application development services, and gradually deploying solutions in areas with great digital potential. In the field of airports, the Company completed the industry-leading project of Beijing Daxing International Airport Intelligent Data Center, which established a brand position for the Company in the domestic airport digitalization and intelligent data center construction. In addition, as an extension of the data service value chain, it also won the bid for the Capital Airport Group Data Platform Design Consulting and the Western Airport Group Data Management Project. Data center projects at airports in Wuhan, Shanghai, Beijing and other regions have also been successfully deployed, providing engineering services and data operation services to customers in areas such as data center, data governance, and passenger services. In the field of railways and highways, the Company has formed a strategic cooperation intention with a large railway company in the southwest region in the field of new information technology, providing customers with services such as the construction of big data platforms, railway supply and demand data forecasting. At the same time, it won the bid for the master data governance project of a municipal highway development group to improve the internal management efficiency of the enterprise and realize the integration of industry and finance and optimization of user experience.

During the reporting period, the Company continued to consolidate its professional capabilities on the existing line of business, and through a proven and mature methodology, quickly replicated solutions in the manufacturing, real estate, government and public industries. In the manufacturing industry, the Company won the bid for a tobacco marketing big data platform project in one province and completed the first stage of implementation. This is the first project practice in the domestic tobacco industry to transform and upgrade from a traditional data center to a big data platform with a centralized platform. In addition, Sunny Optical's master data governance and Beiqi Foton Group's data governance projects were successfully deployed. In the real estate industry, based on the successful implementation of the Times China Data Standards Project, the Company has signed a number of master data projects including Beijing Shougang Real Estate. In the government and public industries, the cloud business of big data of government affairs has been carried out smoothly, and the construction of the core data platform of the "cloud service platform" of the Nanjing Municipal Government's Public Resource Trading Center has continued. In addition, the Company completed the Phase Two of the Changping Government Data Cloud Project. The Company won the bid for the second phase of the Beijing Municipal Card One Card Big Data Platform, which provides data support for Beijing-Tianjin-Hebei public transport integration and card national interconnection. Lastly, the Company won the bid of public security big data resource service center project for a prefecture-level city to further improve the police big data platform that the Company participated in the early stages.

During the reporting period, the Company participated in the 4.0 version of "Data Asset Management Practice White Paper" for cloud computation and big data of the China Academy of Information and Communications Technology. As a core member unit of the data management platform standard development group, it has been invited to participate in the development of the data asset management platform standard 2.0 of the Big Data Technology Promotion Committee of the China Communications Standards Association for many times. The Company's data asset management platform products successfully passed the annual inspection of big data products by the Ministry of Industry and of the Information and Communication Technology Academy.

- **Huawei**

During the reporting period, Huawei's business continued to expand and the Company actively assisted Kunpeng and HMS in building out the ecosystem. The Company signed the first Huawei Kunpeng Cloud Migration Framework Agreement, covering services such as chips, servers, operating systems, databases, big data, cloud services. Moreover, Huawei Cloud Official website is successfully launched. The Company participated in 17 out of 24 R&D processes of HMS Core 4.0 and is highly recognised by Huawei. In the future, it will continue to provide services for Huawei's HMS upgrade and support the global ecological development of HMS. The Company entered the list of core IT suppliers of Huawei Consumer Business Group (hereinafter referred to as CBG) and became the best supplier of Huawei CBG IT annual framework. The "Co-sell" model of the Company and Huawei had a breakthrough in the Latin American region, adding New Mexico business. At the same time the Company consolidated the Southern Asia and Eastern Asian market, and established overseas branches in Malaysia, Myanmar, India, and Hong Kong. In addition to traditional businesses, Huawei Cloud-based solutions have made breakthroughs in government, manufacturing, retail, and transportation industries.

During the reporting period, the Company, as the first batch of partners with whom Huawei has established credible operations, reliable technology, and credible information with, has jointly promoted the General Data Protection Regulation (GDPR) certification.

During the reporting period, the Company passed the Huawei's Supplier Development Plan (SD) evaluation, and the results were approved by the customers. Huawei's SD plan scores suppliers on 12 areas including business, culture, finance, relationship management, quality system, technology, risk management, and project management. The Company set up five major project groups around the SD plan, broken up to 111 projects and tackled each project one by one and saw improvement. The scores in five areas increased by more than 30%. The Company improved management and operation capabilities, strengthened the construction of organizational mechanisms, timely responded to internal and external changes, and maintained business continuity to help business development.

- **HSBC**

  During the reporting period, HSBC's business continued to develop steadily and its team size continued to grow. On the basis of maintaining the competitive advantages of digital transformation business delivery capabilities, it realized the transformation from traditional business to managed service model and implemented nearly 10 million managed service transformation projects.

  During the reporting period, the Company launched HSBC's next-generation digital commercial banking platform, serving hundreds of thousands of commercial banking customers. The Company expanded HSBC's retail business data in Asia Pacific and Greater Bay Area. Furthermore, the Company helped build a new generation of mobile banking credit card customization system Apollo, HSBC Personal Commercial Banking System RBB, HSBC Jade's new account features, and through the Design-Bid-Build (DBB) model, the Company realized customized development of commercial bank customers' foreign exchange trading systems. At the same time, the Company successfully launched several important projects. The Company released three updates of the HK HSBC mobile application, and the Trade Finance launched TT Customer Channel project for international trade guarantee business. A new application, which included new features such as fast payments, personal wealth management, and credit cards, was launched in China, USA, India, and Singapore. Lastly, the Company expanded its Hong Kong business to Hang Seng Bank and won the bid for the first fixed price (FP) project with a signed amount of nearly RMB10 million.

- **Financial Services and Banking**

  During the reporting period, the Company's financial and banking business has steadily improved, adding more than 20 customers, including domestic and foreign banks, private banks, non-financial institutions, and overseas financial institutions. At the same time, it has continued to promote technological innovation and provide customers with technological empowerment, model innovation and business upgrade.

  During the reporting period, the Company provided digital transformation solutions and professional services to many large state-owned banks and national joint-stock banks. In regional commercial banks, the Company provided planning and implementation of system distributed transformation, cloud reconfiguration, technology and business platform. In the fields of credit financing, payment clearing, credit cards, and risk management, the Company has implemented artificial intelligence, financial cloud services, and big data applications. For large financial groups and non-bank financial institutions, the Company has carried out project cooperation with a number of industry group companies including financial real estate, biomedicine, home appliance manufacturing, and securities services industries. The Company provided services in Huawei cloud platform. The services included cloud architecture design and development, application cloud migration, etc.

  During the reporting period, the Company maintained long-term cooperation with dozens of foreign bank customers in Europe, America, Japan, South Korea, Southeast Asia, Australia, etc., covering more than 90% of domestic foreign customer market. The Company carried out new project cooperation in the areas of network connection, TIPS, e-ticket and bill pool projects, supply chain, cross-border payment, credit reporting, regulatory risk control, etc. Lastly, the Company provided acquisition business for well-known banks in the world, and has completed the implementation of solutions in Singapore, Thailand, Indonesia and other places. This business is now being marketed and promoted to Vietnam, Malaysia and other regions.

During the reporting period, the Company continued to invest in R&D on hot market trends and actively carried out business innovation and product upgrades. Based on the Huawei Kunpeng platform and Gauss database platform, the Company completed the domestic adaptation of intelligent customer service, data asset management, and real-time anti-fraud products, and entered the Huawei solution product catalog. Furthermore, the Company enhanced customer business value in products and application scenarios such as electronic letters of credit, ticket payment, second discount, merchant cloud, equity points, asset security, etc. In the field of intelligent customer service, the Company used big data scenario speech training and speech recognition synthesis to achieve functions such as intelligent calling, automatic response, automatic collection, automatic marketing, and scene dialogue.

During the reporting period, the Company maintained leading position in the integrated supply chain finance solutions field. Among them, the Company's commercial factoring products will combine cloud services and customization. Financial card-based products continued to innovate along with the market demands, with features such as face applications, payment platforms, two-dimensional code industry applications, tokenization, and acquiring platforms continuously upgraded.

- **Insurance and Securities**

  During the reporting period, the Company's insurance business grew steadily, keeping pace with the optimization of the industrial structure and the construction of intelligent cores. It developed solutions in the areas of telemarketing brains, auto insurance pricing, and intelligent security, and successfully deployed in several large insurance institutions. The Company has won nearly one hundred projects, covering life insurance, property insurance, marketing channels, business intelligence, risk management, etc. One of the major insurance company's core insurance Internet platform projects used a distributed architecture to support cloud deployment. Its core individual insurance products are connected to this channel and became its main sales channel. At the same time, the Company won the bid for the data management and control system project, giving full play to the Company's data management and control solution capabilities, and comprehensively spreading from point to surface to the insurance industry's data management and control market. During the reporting period, the Company cooperated with Baidu in depth to jointly implement the auto insurance pricing auxiliary decision-making system project, using big data and advanced machine learning algorithms to enrich the auto insurance pricing risk factor pool and formed an intelligent auto insurance underwriting pricing tool. Lastly, the Company continued to expand its ODC business with AIA Insurance (Asia Pacific) and AIA Insurance (China), and has won bids for asset management platform solutions, smart audits, and big data platform upgrades.

  During the reporting period, the Company's securities business continued to maintain its leading position in terms of data and systems, extending from traditionally advantageous businesses to capital market monitoring, monitoring and service agencies. The Company's key projects included the launch of a new-generation market surveillance system and the integration of data from a monitoring center and the standard construction project. The Company played a role in public opinion, associated accounts, stock price manipulation, etc., and helped the stable and healthy development of capital markets. At the same time, the Company provided industry data standards and model consulting and design services, supporting the entire process of capital market and cross-market supervision, and helping the capital market service regulatory transformation. The Company entered into the futures market for the first time and won the bid for a big data supervision system platform, construction project of a large futures exchange, helping them to become the first domestic securities company to comply with the China Securities Regulatory Commission's Science and Technology Supervision 3.0 Concept. At the same time, the Company won the bid for the national stock transfer test service project in 2019 and explored the automated test service model. In addition, the Company, as a council member of the Fintech Industry Development Alliance, participated in the research and development of industry science and technology theories. As one of the main underwriters of the "People's Republic of China Financial Industry Standards-Securities and Futures Data Model", it participated in the supervision of science and technology and asset management research on topics such as artificial intelligence in the industry, and deeply participated in the preparation and application of securities and futures industry standards.

- **Telecommunications and Internet**

  During the reporting period, the Company relied on the strategic cooperation with China Mobile and China Telecom to become their core supplier and further expand to government and enterprise market.

  During the reporting period, the telecommunications business developed steadily, and the Company continued to work closely with its large customers. China Mobile's business layout continued to improve and expand, implementing the "5G +" plan. It plans to build out a new business system for government and corporate affairs and new business markets have become new growth drivers. Based on the experience of China Mobile's Suzhou R&D Center, Beijing Research Institute, Internet of Things, Internet, and Migu Company, the Company made new breakthroughs in Shanghai Industrial Research Institute, Xiong'an Industrial Research Institute, Government and Enterprise Branch, China Mobile All Access, and China Mobile Zhixing Hangzhou R&D Center. The Company successfully won important projects of China Mobile Internet, Beijing Research, and China Mobile Xiong'an Industrial Research Institute. Furthermore, the Company's China Telecom cooperation has expanded smoothly, becoming the largest supplier of Tianyi e-commerce. The Company expanded the business of the retail finance business unit, and further expanded the business shares of the customer management business group, consumer financial business group, O2O business group, and successfully won the bids of China Telecom Cloud Computing, China Telecom Electronic Channel Operation Center, China Telecom Integration Corporation, projects, and etc. Lastly, with the business capabilities accumulated in China Mobile and China Telecom, the Company continued to cooperate with customers such as Fenghuo, Dingqiao Communications, and Datang to make efforts in emerging areas such as the Internet of Things and cloud computation.

- **Internet (BAT)**

  During the reporting period, the Company continuously and steadily provided IT services to Internet companies such as Tencent, Ali, Baidu, etc., established deep cooperative relationships with customers, established competence centers, and developed solutions. Furthermore, the Company signed a strategic cooperation agreement with Tencent to coordinate and develop the B2B business market. The Company signed a strategic cooperation agreement with Baidu's intelligent driving business group to deepen cooperation in the areas of autonomous driving, smart cities, and data analysis to promote the implementation of AI technology.

During the reporting period, the Company's cooperation with Tencent was further deepened. Tencent's music business team has exceeded 100 people, and the audit business has also achieved breakthrough growth. It has won bids for all types of video and graphic games, WXG WeChat Mini Program, Youku Cantonese, WeChat Fun, and other projects. It has also won bids for Tencent Video overseas translation development project, Tencent game enterprise, WeChat test package project, Tencent high-precision map project, Tencent financial media project, etc. In order to deepen the cooperation with Tencent, the Company established two near-shore delivery centers in Shenzhen and put them into use, which was well welcomed by Tencent customers. At the same time, the construction of Shanghai Offshore Delivery Center began. During the cooperation period, the Company maintained the exclusive agent status in Tencent's Corporate Development Group (CDG) business for four consecutive years, and won the title of the top quality supplier of the year by Tencent's Interactive Entertainment Group (IEG), becoming its largest supplier. Lastly, in the Tencent Platform and Content Group (PCG) business, the Company's annual satisfaction survey received a good score of 10, successively becoming the only quality supplier and designated supplier of Lexin business, Weishi business and browser operation business.

During the reporting period, Ali's business continued to grow steadily. As of the writing of this report, the total number of Alibaba service personnel has exceeded thousands, covering Taobao, Tmall, New Retailing, Alibaba Cloud Intelligence, Ant Financial, Cainiao, and digital entertainment. The Company has also delivered the Alibaba Cloud Intelligence, elastic computing of basic product, IoT, data intelligence, etc. Lastly, the Company actively expanded its cooperation with Ali Semi conductors' "flat-headed brother".

During the reporting period, the Company and Baidu further deepened cooperation in core business areas such as searching, intelligent driving, Baidu cloud, and finance. The Group signed a joint construction cooperation agreement with Baidu's intelligent driving business group, focusing on the application of AI technology in core application scenarios, and achieved steady growth in business. Under the established competitive advantages, the Company has newly expanded the search and delivery business, with a team size of more than 100 people. It has successively won the bids of Baidu Cloud Yunyunzhi College and Cognitive Platform, Baidu Cloud Yunyunzhi College Commercialization Platform, Du Xiaoman Voice Annotation and Review, iQiyi Audiovisual and etc.

- **Hi-Technology**

  During the reporting period, the Company's Microsoft business grew steadily, and actively expanded into the domestic and overseas markets. In China, the Company closely followed the strategic direction of Microsoft. As a strategic partner of Microsoft Azure Cloud and Dynamics CRM, the Company has extended market cooperation with Microsoft to provide high-quality consulting and implementation services. In Hong Kong, the Company implemented the Microsoft Azure cloud migration project, began building cloud migration capabilities, deepened the cooperation model with Microsoft, and laid the foundation for expanding other customers based on Microsoft Azure. In Southeast Asia, the Company cooperated with Microsoft in Azure cloud application development, Power Platform, Bing, SharePoint, AI voice and other directions and implemented multiple cases to complete the PowerApps Silver Partner certification.

During the reporting period, the Company's Ping An's business grew rapidly and began to see results in the Ping An financial business. The Company assisted Ping An to explore artificial intelligence application scenarios in the financial field and completed business blueprint in the medical and education field. Furthermore, the Company deepened Ping An's financial business and assisted Ping An in advancing its "finance + technology" strategy. In banking, the Company assisted Ping An Retail Bank with its Open bank + AI bank strategy and successfully implemented a number of key projects such as smart mobile banking, smart anti-fraud, pocket bank AI steward, "AI account manager", and "OMO empowerment". The Company realized the planning and construction of a complete system service platform, customer group business scene mining, robot + manual labor service, data closed-loop monitoring, etc., and built a platform-based operating capability, supporting the mining of more business intentions and bringing them online. In insurance, the Company successfully won the bid for Ping An Group's data platform business project and Ping An Property & Casualty's "Voice Semantic Labeling" project. Through the implementation of the OneConnect, it consolidated solutions such as unified clearing and settlement platform, unified payment platform, and enterprise cloud architecture upgrade, providing capacity support for subsequent business expansion. In addition, it also won the bid for the Chengdu One Account Smart Financial Development Project to expand the virtual banking, direct sales banking, and mobile's banking projects. The company also won the bid for Ping An Micro Leasing Project four times in a row. The Company began to penetrate Ping An's medical business layout and achieved a breakthrough in the field of Ping An Smart Medical. The Company won the bid for the smart hospital management system project, independently completing project requirements analysis, UI design, project management, front-end and back-end development, testing, and operation and maintenance. Lastly, the Company, relied on the layout of the education industry and its accumulated knowledge, and successfully won the bid for the Smart Education Zhiniaozhi portal and the smart search project.

During the reporting period, the Company's BPO business grew rapidly and continued to expand at domestic and overseas market. In the domestic BPO market, the Company continued to expand its traditional operation support business, accelerate the expansion of data annotation, content auditing business, and explore potential BPO markets such as high-tech and finance on the basis of consolidating its advantages of the internet industry. The market share of the Company's data labeling business has continued to increase, and it has become the number one supplier of Alibaba map labeling business and a top supplier of Baidu's Xiaoman voice annotation business. In addition, the Company created natural language processing tools such as intelligent character recognition (ICR), automatic image processing and recognition, and text semantic analysis to promote data labeling work efficiency. With breakthroughs of content auditing business, the Company became the best cooperative supplier of Alibaba Cloud's record auditing business, and successfully won the Meituan security audit project. In terms of customers, in the leading Internet field, the Company continued to expand its cooperation with BAT, and accelerated industry replication, successfully expanding into industry leading customers including Meituan's Internet business and multiple Internet middle and long-tail customers. In high-tech, financial and other fields, the Company are constantly expanding new customers such as Ping An Technology and Zhuiyi Technology, and strive to create new advantageous industries. Furthermore, the Company achieved a breakthrough in the Japanese BPO business in the technology applied area, continued to promote the intelligent character recognition (ICR) applications. Through breakthroughs in recognition template technology, the average number of ICR entries is 70%, and the maximum number of entries is 93%. At the same time, the Company constantly improved its font training capability: the overall recognition accuracy is now more than 55%. Lastly, the Company won the bid for the shared platform project and the content distribution network (CDN) conversion project, and has started the NRI (Nomura Research Institute Japan) serverless DevOps development project. The Company also participated in the design of cloud architecture solutions for NEC's China Distribution Division.

During the reporting period, the Company's GE business has steadily improved. The Group completed the submission of the MVP3 (Minimum Viable Product) phase in the GE THINKING WORK platform IoT project. At the same time, the medical equipment support and maintenance business expanded, covering more than 20 provinces and cities in China. The Company has also increased the development of other GE businesses, achieved breakthroughs in the embedded automation test area of GE Aviation and Petroleum Business, and became its important IT service provider.

During the reporting period, the real estate ODC business grew rapidly, and a team was formed in Xi'an ODC. Mingyuan Real Estate's ODC business developed smoothly, the team headcount grew steadily, increasing the production capacity by 30%. The Company successfully won the bids for Longhu Real Estate, Xinghe, Time Real Estate, Agile Real Estate, Gaoxinxing Group, Chengdu Highway Design Institute, PricewaterhouseCoopers and other projects, and explored new cooperation models with leading real estate clients such as Vanke, Longhu, Blu-ray in the field of smart parks.

During the reporting period, the Company's SF Express business continued to expand, maintaining its exclusive supplier status in Beijing and Shenzhen. The Company cooperated with SF Tyson Holdings-Small and Micro Solution Center and successfully entered the SF pharmaceutical and cold transportation business fields. At the same time, The Company also expanded its business into two major areas of SF drones and intelligent hardware non-IT technology. SF's GIS business continued to expand outside Fengtu Wuhan and Fengtu Shenzhen into new cities, and started cooperation with Fengtu Technology in Chongqing.

- **Government**

  During the reporting period, the Company continued to cultivate government business. Among them, the audit information business continued to maintain the leading position in the market, and many breakthroughs were made in the corporate, national, and financial fields. The company's first cloud-based Guizhou project was successfully implemented.

  During the reporting period, the audit business continued to develop, and many projects were smoothly advanced. Product development was based on the concept of "business + technology", and it gradually transformed to a "platform product + business implementation" delivery model. In corporate auditing, the Company provided enterprises with audit compliance systems, information systems, supervision systems and information platforms, and completed audit projects for customers such as Railway Construction, Dongfeng Motor, Huaneng, Electronic Technology, BOE and other clients. In national auditing, the projects in Jiangxi and Zhongshan have passed the inspection and acceptance, and the projects in Qinghai Province have been successfully implemented. In financial auditing, the Company successfully signed the China Post Bank project, launched the Huaxia Bank project, and steadily advanced the Nanjing Bank project. In the field of financial risk, the Company provided market risk system and subsequent operation and maintenance services for banks and securities companies. During the reporting period, China Merchants Securities, Oriental Securities, Huatai Securities, Changsha Bank, Huarong Xiangjiang Bank, Yunnan Rural Credit and other market risk projects went online. In addition, the Company continued to operate and maintain China Development Bank and Haitong Securities projects. After the precipitation and polishing of multiple projects, the Company successfully developed and upgraded the national audit comprehensive audit analysis platform, bank version off-site audit analysis platform and bank version risk prevention and control platform.

During the reporting period, the Company's agricultural informatization business progressed smoothly. The Company won the bid for the Yunnan Province's Department of Ecological Environment Protection project, and completed the pilot project of docking the EIA and sewage permit in the country. Furthermore, the Company successfully completed the acceptance of the comprehensive animal husbandry information platform across the country, and completed the initial integration and sharing of 14 ministerial animal husbandry industry information systems. The breeding livestock and poultry production and operation license business system has completed seven provinces (regions) pilots, and is planned to be uniformly promoted and used throughout the country in 2020. Lastly, the Company cooperated with Guizhou on the cloud to steadily promote the use of big data platforms in the province, and provided big data support for the adjustment of the agricultural industrial structure in Guizhou.

During the reporting period, the Company continued to cultivate its leading position in the media sector. The Company provided solutions for new media integration and digital publishing for central and local media and newspaper industry. The Company provides innovative products for the English version of Xinhua News Agency. The English version of the media product production and content management project has been successfully completed, including production of micro-video, H5 and other media resources. In addition, the second phase of the project was constructed on the basis of the first phase of the visualization product of the Economic Daily News Agency.

During the reporting period, the Company's social security business steadily advanced. As one of the front-end vendors of the Ministry of Human Resources and Social Security, the Company successfully won the bid for the second phase of the Jinbao project, launched the online application for social insurance relationship transfer, and promoted the orderly construction of the second phase of fund supervision.

During the reporting period, the "Internet + Customs" integrated platform project progressed in an orderly manner, and the final inspection has been successfully completed. The smooth operation of the system effectively supports the efficient operation of customs operations and has been highly recognised by customers.

- **Manufacturing Logistics**

During the reporting period, the Company continued to cultivate its traditional manufacturing and logistic business with the continuous innovation of emerging technologies such as cloud and big data, the Company helped the industry to achieve digital transformation. In terms of cloud capabilities, the Company created the first tobacco industry-based supply chain cloud management platform for distribution and other microservices. In order to lay the foundation for the batch management of the supply chain of the factory, the Company is gradually promoting the construction of a supply chain cloud management platform in a certain province. In terms of data capabilities, the company successfully won a provincial tobacco marketing big data platform project. This is the first time used a central data platform methodology, marking the beginning of the industry's transition. In the industrial field, the Company won the bid for a MES system construction project of a cigarette factory on the basis of maintaining its market leading advantage, and opened up new businesses. At the same time, the Company continuously optimized the Smart Manufacturing Execution System (S.MES) platform, and innovated in intelligent production simulation and process quality intelligent management and control. In the agricultural field, all the implementation and promotion projects of the national industry procurement regulation supervision platform have been launched, achieving a breakthrough in procurement business.

During the reporting period, the Company's new retail business continued to innovate. The Company achieved breakthrough in strategic cooperation with Huawei Cloud in the field of new retail, and became a Huawei Cloud Retail Integrator. The Company's new retail system has entered the Huawei Cloud Mall's carefully selected solutions, and is sold in two versions: SaaS or customized solutions. At the same time, the Company cooperated with Huawei to design new retail solutions and new retail business-oriented platforms in the field of circulation and logistics, and cooperated in depth in AI technology areas such as face recognition, image recognition, model training, etc., to provide complete new retail solutions. This solution penetrated the wine, clothing, footwear and food sub-sectors, and have completed pilot projects in Guangdong, Shaanxi and Fujian. The Company is now actively pushing this into new markets including Hunan and Anhui.

- **Public Utilities (Transportation and Energy)**

During the reporting period, in line with the Company's digital transformation strategy, the Company's transportation business continued to innovate. With the advantage of big data, the Company's aviation business has expanded to more customers in the same industry. Furthermore, its EPMS, an overseas energy product, has been recognised by Gartner.

During the reporting period, the Company's transportation business developed steadily, adhering to the Company's innovative transformation strategy, consolidated its products and solutions. The Company cooperated with Huawei to jointly release the rail transit ticketing cloud service products based on Kunpeng, and successfully won the Luoyang Rail Transit Line 1 project. The Company continued to improve its rail transportation business through the application of face recognition, NFC, two-dimensional code, Bluetooth and other technologies. The Company successfully won the bid and implemented a number of rail transit clearance systems, Internet ticketing platforms, and application of the two-dimensional code of the line network, including Changsha rail transit, Jinan rail transit, Changchun rail transit, Jinhua-Yiwu-Dongyang rail transit, Qingdao Metro, Chengdu Metro and Lanzhou Metro, etc. Lastly, the Company broke through the field of smart ports and successfully won the bid of Qingdao Port Group Smart Port Project.

During the reporting period, the Company made significant progress in the field of civil aviation informatization, building end-to-end service capabilities in the field of big data for smart airports. In the field of smart airport big data consulting, it successfully acquired customers including Capital Airport Group, Guangxi Airport Group and Zhengzhou Xinzheng Airport. In addition, Daxing Airport Wuhan Tianhe Airport and Shanghai Airport also successfully passed the inspection, making these as benchmarked projects. Lastly, major safety supervision projects of the Civil Aviation Administration, flight standard supervision and management systems, and national administrative law enforcement projects have been deployed nationwide and start the training programme, further strengthening the Company's leading position in aviation safety supervision.

During the reporting period, the Company's energy business progressed steadily. The Company successfully completed the delivery of the electric power AMI project in the capital of a Southeast Asian country. In product research and development, the Company completed the deployment test of the power marketing solution on the public cloud, and conducted joint debugging with well-known meter manufacturers. Lastly, the Company's power product, EPMS, successfully entered into Gartner's Meter Data Management and "Utility Customer Information System" Market Guide reports.

- **Catapult**

  During the reporting period, Catapult's subscription service revenue grew rapidly, continued to deepen its cooperation with Microsoft, and expanded its business to Canada, Central and South America, while continuously imported its overseas cloud service capabilities into China, helping enterprises achieve digital transformation. In terms of independent research and development, Fuse, the largest "solution as a service" of Catapult, reached a strategic partnership with Valo Intranet, integrating Fuse solutions with Valo Intranet platform to better provide customers with office 365 products and support services. Spyglass, the second largest solution-as-a-service of Catapult, helping companies to streamline IT security and compliance processes, gained market recognition, and achieved breakthrough in revenue. In terms of information technology service, Catapult launched cloud voice services to provide integration and end-to-end support for Microsoft voice technology. In addition, Catapult also helped customers modernize communications through Microsoft Teams and Enterprise Edition Skype to replace users' PBX. During the reporting period, Catapult was awarded the "PowerApps Partner of the Year" and "Modern Office Workplace-Security and Compliance Partner" by Microsoft. It was also honored as the "Modern Desktop Partner" and "Power BI Partner" of the year. Lastly, Catapult also won the Eagle Plaque Award for its success with new Microsoft Dynamics customers.

- **Training (ETC) Business**

  ETC is one of the top IT training organizations in China. Along with different universities, they created industry academies to provide IT training. Currently, ETC has established talent training and practical training cooperation with more than 1,000 colleges and universities and has accumulated more than 300,000 qualified employees for the industry. At the same time, it has built a talent training base with a total area of over 40,000 square meters and can accommodate more than 20,000 students.

During the reporting period, ETC acquired the online education brand "Futurelab" and introduced high-quality resources such as discipline competitions, online training, talent assessment, job qualification certification, artificial intelligence laboratories, etc., forming an online to offline ecosystem. At the same time, it held more than 4,000 college competitions and more than 200 tour lectures, including the "Future Cup AI College Challenge", covering more than 4 million outstanding students in colleges and universities. Furthermore, ETC cooperated with Huawei to build the Kunpeng education ecosystem, established a training base for smart talents, and cooperated with Xiamen University, Fuzhou University, Northwestern Polytechnical University and other well-known universities to develop Kunpeng courses. C-level members of universities, and senior technical experts for government and enterprises have successfully participated in held Huawei Yunpeng Pengyun service training in Shenzhen, Shaanxi, Fujian, Henan and other places. In addition, the Company established a government and enterprise service business group to provide the government with one-stop talent services, including enterprise internal training, corporate talents, and parks, and established an innovative talent service mechanism from scouting to training. It has signed contracts with 8 cities including Shanghai, Guangzhou, and Chongqing to provide support for the development of local digital economy industries.

During the reporting period, the Company was awarded the 2019 China Digital Service and Service Outsourcing Leading Enterprise (Top 100 Enterprises, Talent Innovation Demonstration Bases, Talent Training Leading Institutions), and also won the first batch of four national ministries and commissions (NDRC, SASAC, Ministry of Industry and Information Technology, Ministry of Education) national occupations, becoming a national designated teacher training enterprise.

In 2019, the Group's businesses achieved steady growths. The revenue, service revenue, profit, profit attributable to the owners of the Company and basic EPS increased by 13.8%, 12.6%, 5.7%, 5.5%, 4.0% YoY respectively.

	2019 RMB'000	2018 RMB'000	% Increase (decrease) over the same period last year
Revenue	**12,041,895**	10,585,013	13.8%
Service revenue	**11,636,730**	10,339,012	12.6%
Profit for the year	**756,686**	716,171	5.7%
Profit for the year attributable to owners of the Company	**754,888**	715,803	5.5%
Basic earnings per share (cents)	**30.71**	29.54	4.0%

KEY OPERATING DATA:

	2019 RMB'000	2018 RMB'000	% Increase (decrease) over the same period last year
Revenue	**12,041,895**	10,585,013	13.8%
Service revenue	**11,636,730**	10,339,012	12.6%
Cost of sales and services	**(8,458,802)**	(7,340,356)	15.2%
Gross profit	**3,583,093**	3,244,657	10.4%
Other income	**177,811**	64,078	177.5%
Loss from derecognition of financial assets measured at amortised cost	**(4,544)**	(7,139)	(36.3%)
Impairment losses, under expected credit loss model, net of reversal	**(74,812)**	(35,200)	112.5%
Impairment loss on goodwill	**(35,760)**	–	N/A
Other gains or losses	**849**	(5,669)	(115.0%)
Selling and distribution costs	**(617,554)**	(495,524)	24.6%
Administrative expenses	**(1,195,874)**	(1,091,148)	9.6%
Research and development costs	**(808,949)**	(739,434)	9.4%
Other expenses	**(58,929)**	(68,402)	(13.8%)
Finance costs	**(166,045)**	(117,987)	40.7%
Share of results of investments accounted for using the equity method	**(328)**	12,222	(102.7%)
Profit before taxation	**798,958**	760,454	5.1%
Income tax expense	**(42,272)**	(44,283)	(4.5%)
Profit for the year	**756,686**	716,171	5.7%
Profit for the year attributable to owners of the Company	**754,888**	715,803	5.5%
Basic earnings per share (cents)	**30.71**	29.54	4.0%

GENERAL OVERVIEW

In the battle of 2019, facing the increasing unfavorable conditions of external environment and increasing downward pressure on the economy, the Company continued to consolidate the cornerstone business focusing on technical professional services and solutions, and accelerated the expansion of digital represented by cloud intelligence. The business, based on domestic and global layout, adhered to its ideology of "drawing one blueprint", and achieved sustained and steady growth in performance. The Company was successfully ranked among Gartner's top 100 global IT service providers, demonstrating the value and role of China's leading IT companies.

During the reporting period, Huawei's business continued to expand and actively assisted Kunpeng Cloud and HMS in building their ecosystems. The Company signed the first Huawei Kunpeng Cloud migration framework agreement and successfully launched on the official Huawei Cloud website. The Company continued to provide high-quality IT services for Huawei HMS upgrades. The Company entered the list of IT core suppliers for Huawei Consumer Business Group and became the best framework supplier of the year. The Company and Huawei's "Co-sell" model achieved business breakthrough to delivery and implementation. HSBC's banking business continued to maintain and expand its competitive advantages in digital transformation business delivery capabilities, and realized the transformation from traditional business to managed service model. The Company launched HSBC's next-generation digital commercial banking platform to serve hundreds of thousands of commercial bank customers.

During the reporting period, the Company continued to deepen its cooperation with Tencent, signed a strategic cooperation agreement with Tencent, and collaboratively explored the 2B business market. The co-establishment of the Shenzhen Offshore Delivery Center began its operations. Alibaba's business continued to grow steadily. Important cooperating projects such as Alibaba Cloud Intelligence, basic product elastic computing, IoT, and data intelligence have successfully completed independent delivery. Baidu's business achieved stable growth. The Company signed a strategic cooperation agreement with Baidu's intelligent driving business group to deepen cooperation in the areas of autonomous driving, smart cities, and data analysis to promote the implementation of AI technology applications. Microsoft's business has grown steadily. As a strategic partner of Microsoft Azure Cloud and Dynamics CRM, the Company has extensive market cooperation with Microsoft to provide high-quality consulting and implementation services. Ping An's business grew rapidly. The company is committed to Ping An's great financial business sector to assist Ping An in mining artificial intelligence application scenarios in the financial field and completing business layout in the medical and education fields.

During the reporting period, the Company continued to optimize and upgrade the Jointforce platform, launched new functions and launched special dedicated service zones. Jointforce's Cloud Integrative service has entered into rapid marketing and promotion phase, and it has signed with 10 new cities nationwide, providing approximately 2,400 government IT projects with monetary value of over RMB1 billion. The "Plan Z" transformation of the cornerstone business has achieved initial results. As of the end of 2019, the total amount of the "Plan Z" contracts has exceeded RMB300 million, and more than 700 suppliers have signed up.

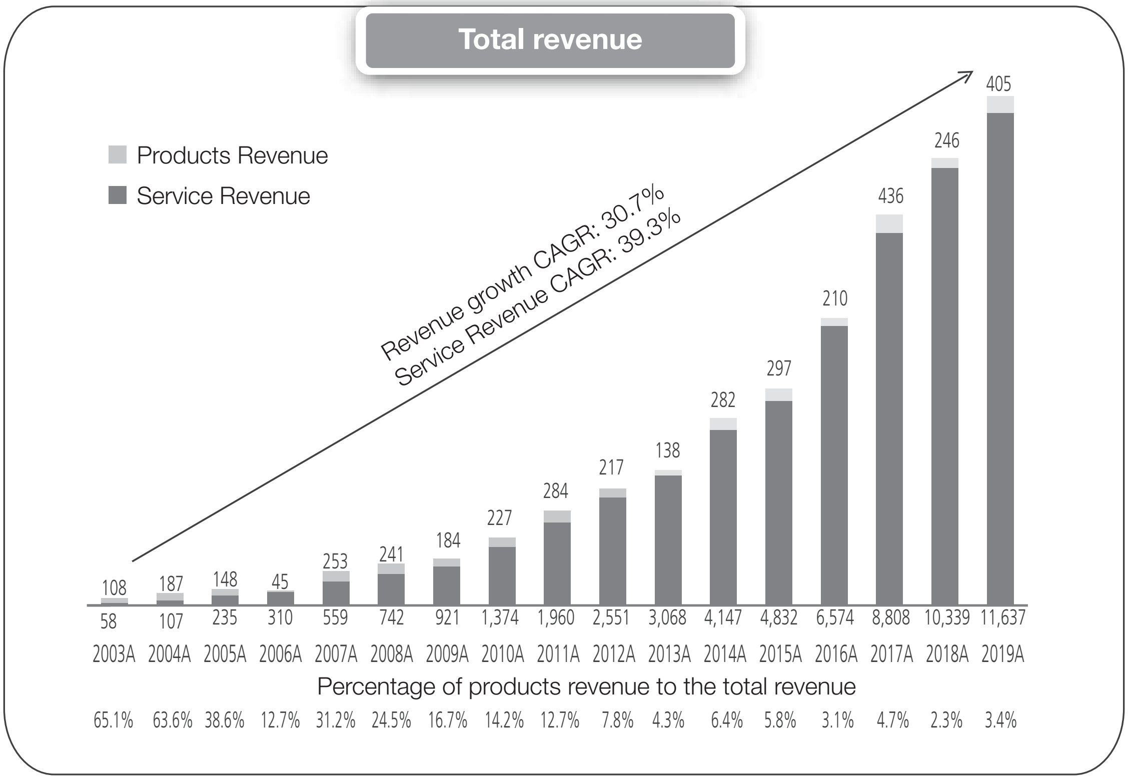
During the reporting period, the Company made significant breakthroughs in cloud management service, and its cloud products and cloud solution capabilities have significantly improved. The Company continued its Exchange and Oracle cloud service development, launched and marketed Huawei Cloud Disaster Recovery Services and other solutions, launched cloud management service platform V1.0, servicing close to a hundred of Huawei's cloud clients. The Company's enterprise cloud disk was launched in the overseas "Selected Market" of Huawei. Furthermore, the Company's smart parks and smart retails have also settled in the Huawei overseas "Selected Market" and released solutions. The Company cooperated with cloud service providers including Huawei, Tencent, and Microsoft to vigorously develop a multi-cloud ecosystem, becoming the first batch of partners to join the "Huawei Kunpeng Cloud Partner Program". The Company continued to deepen Huawei Cloud's "Sailing on the Same Boat" cooperation and became a gold supplier of Huawei cloud services. The Company continued to deepen cooperation with Tencent Cloud and became the official regional authorized service center designated by Tencent Cloud. Lastly, the Company developed cooperation with Microsoft Azure Cloud to build Azure cloud application migration and cloud solutions.

During the reporting period, the Company's big data business firmly followed the Company's innovation and transformation strategy and further strengthened intra-group synergy to ecosystem cooperation. The Company accelerated industry replication in advantages and strategic areas such as transportation, manufacturing, real estate, and government. This has become an important driver in the Company's cloud and digital transformation business expansion. The Company continued to invest in big data research and development, consolidate industry solutions, and continuously improved data asset management products.

During the reporting period, in face of complex and changing international situation, the Company strengthened the management of business continuity such as the supply of human resources to customers, production safety operations, and operating cash flow security. Especially in terms of cash flow security, the Company strengthened the management of receivable collection, laying a solid foundation for the company's sustainable and stable operation and long-term development.

Looking into the future, the Company will cooperate with strategic customers such as Huawei with "Zero Distance Innovation", continue to improve service capabilities and customer satisfaction with the supplier development plan, use Jointforce's thinking to transform the cornerstone business, use AI and big data, and focus on cloud intelligent business to realize the Company's cloud intelligent transformation strategy. The Company will continue to demonstrate the value of a "fighter" and continue to move towards its goal of a world-class IT leader.

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 30.7% and 39.3% from 2003-2019. The details are as follow:



CUSTOMERS

The Company's customers include large enterprises with headquarters in the Greater China region, Europe, American and Japan. In the Chinese market, the Company holds a larger market share in telecommunication, banking, financial, government, internet, and high technologies. In 2019, the top five and ten customers accounted for 71.1% and 75.8% of the Company's service revenue.

In 2019, the Company has 1,911 active customers and 124 large customers (contributed to more than RMB6 million of service revenue within the past 12 months).

MARKET

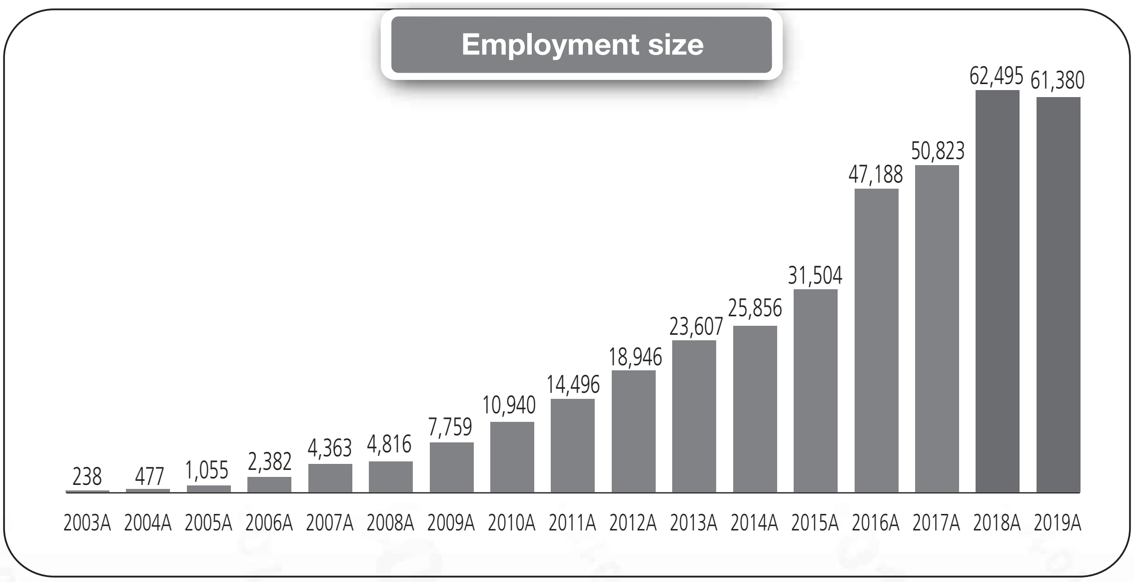
During the reporting period, the Company's main businesses were concentrated in the Greater China region. The huge market potential in the Greater China region continued to bring growth opportunities for the Company. The Company provides ITS to customers from 32 countries and a number of Top 500 companies, such as Huawei, HSBC, Microsoft, GE etc. in the world, accumulating experiences in services in servicing international customers. Going with the "Belt and Road" initiative, the Company will combine and increase its cooperation with Huawei's products and industries to accelerate its global layout. The Company will leverage its existing strategic centers in China, United States of America, Mexico, Japan, India, and Malaysia to broaden cooperation and improve its blueprint. The Company will utilize cloud driven digitalization services to promote global servicing layout, become a world class ITS enterprise, and establish China's influence in the global IT market.

HUMAN RESOURCES

As of the end of 2019, the Company has a total of 61,380 employees, representing a YoY decrease of 1.8% (2018: 62,495). During the reporting period, the average employee headcount was 61,938, representing a YoY increase of 9.3% (2018: 56,659).

As of the end of 2019, the Company employed 58,646 technical staffs, accounting for 95.5% of the total employee headcount. Of which, 20,862 technical staffs are project managers, consultants, and senior engineers, accounting for 35.6% of the total technical staffs.

Since listing on the GEM board in 2003, the Group's increase in employment size is as follow:



OPERATING RESULTS

The Group's consolidated income statements in 2018 and 2019 are as follow:

	2019 RMB'000	Percentage of revenue	Percentage of service revenue	2018 RMB'000	Percentage of revenue	Percentage of service revenue
Revenue	12,041,895	N/A	N/A	10,585,013	N/A	N/A
Service revenue	11,636,730	N/A	N/A	10,339,012	N/A	N/A
Cost of sales and services	(8,458,802)	(70.2%)	(72.7%)	(7,340,356)	(69.3%)	(71.0%)
Gross profit	3,583,093	29.8%	30.8%	3,244,657	30.7%	31.4%
Other income	177,811	1.5%	1.5%	64,078	0.6%	0.6%
Loss from derecognition of financial assets measured at amortised cost	(4,544)	(0.0%)	(0.0%)	(7,139)	(0.1%)	(0.1%)
Impairment losses, under expected credit loss model, net of reversal	(74,812)	(0.6%)	(0.6%)	(35,200)	(0.3%)	(0.3%)
Impairment loss on goodwill	(35,760)	(0.3%)	(0.3%)	–	0.0%	0.0%
Other gains or losses	849	0.0%	0.0%	(5,669)	(0.1%)	(0.1%)
Selling and distribution costs	(617,554)	(5.1%)	(5.3%)	(495,524)	(4.7%)	(4.8%)
Administrative expenses	(1,195,874)	(9.9%)	(10.3%)	(1,091,148)	(10.3%)	(10.6%)
Research and development costs	(808,949)	(6.7%)	(7.0%)	(739,434)	(7.0%)	(7.2%)
Other expenses	(58,929)	(0.5%)	(0.5%)	(68,402)	(0.6%)	(0.7%)
Finance costs	(166,045)	(1.4%)	(1.4%)	(117,987)	(1.1%)	(1.1%)
Share of results of investments accounted for using the equity method	(328)	(0.0%)	(0.0%)	12,222	0.1%	0.1%
Profit before taxation	798,958	6.6%	6.9%	760,454	7.2%	7.4%
Income tax expense	(42,272)	(0.4%)	(0.4%)	(44,283)	(0.4%)	(0.4%)
Profit for the year	756,686	6.3%	6.5%	716,171	6.8%	6.9%
Profit for the year attributable to owners of the Company	754,888	6.3%	6.5%	715,803	6.8%	6.9%

REVENUE

In 2019, the Company's revenue was RMB12,041.895 million (2018: RMB10,585.013 million), representing a YoY growth of 13.8%. The Company's service revenue was RMB11,636.730 million (2018: RMB10,339.012 million), representing a YoY growth of 12.6%. The growth mainly came from steady increase from existing large customers and the high growth of cloud products, services from the Cloud Intelligence Group.

TPG and IIG's revenue and proportion of total revenue in 2019 are as follow:

	2019 RMB'000	**Weight**	2018 RMB'000	Weight	Growth Rate
TPG	**10,458,258**	**86.8%**	9,174,855	86.7%	14.0%
IIG	**1,583,637**	**13.2%**	1,410,158	13.3%	12.3%
Total	**12,041,895**	**100%**	10,585,013	100%	13.8%

COST OF SALES AND SERVICES

In 2019, the Company's cost of sales and services was RMB8,458.802million (2018: RMB7,340.356 million), representing a YoY growth of 15.2%. In 2019, the Company's cost of sale and services accounted for 70.2% of revenue (2018: 69.3%), representing a YoY increase of 0.9%.

GROSS PROFIT

In 2019, the Company's gross profit was RMB3,583.093 million (2018: RMB3,244.657 million) representing a YoY increase of 10.4%. The Company's gross profit margin was 29.8% (2018: 30.7%), representing a YoY decrease of 0.9%. The Company's gross profit margin (to service revenue) was 30.8% (2018: 31.4%), representing a YoY decrease of 0.6%. The main reason for the decrease in gross profit margin is due to the fluctuation of personnel in the Huawei lines of business during the reporting period, resulting in an increase in labor costs.

In the future, the Company will adopt the following measures to raise the level of gross profit margin:

1. Continue to increase businesses with high gross margins and high per capita output, increase research and development investment in cloud products and tools, cloud solutions, and cloud native professional services, consolidate IP, integrate ecosystems, accelerate the construction of full-stack cloud smart services, and increase the proportions of smart cloud services such as cloud products and cloud services and continue to improve business models.

2. Continuously improve the Company's service quality and service value through the supplier development program.

3. Start a flexible human resources management program, allocate staff more reasonably, and improve staff efficiency.

OTHER INCOME

In 2019, the Company's other income was RMB177.811 million (2018: RMB64.078 million), representing a YoY increase of 177.5%. The increase is mainly due to the impact of the VAT input tax deduction policy during the reporting period and the increase in government subsidies compared to the same period last year.

OTHER GAINS OR LOSSES

In 2019, the Company's other gains was RMB0.849 million (2018: RMB5.669 million). This was mainly due to the fluctuation of exchange rate between US dollar and Hong Kong dollar against RMB.

OPERATING EXPENSES

In 2019, the Company's selling and distribution expenses were RMB617.554 million (2018: RMB495.524 million), representing a YoY increase of 24.6%. The Company's selling and distribution expenses accounted for 5.1% of the revenue, representing a YoY increase of 0.4% (2018: 4.7%). This is mainly due to the increase of labor cost for sales and promotion personnel during the reporting period.

In 2019, the Company's administrative expenses were RMB1,195.874 million (2018: RMB1,091.148 million), representing a YoY increase of 9.6%. The Company's administrative expenses accounted for 9.9% of the revenue, representing a YoY decrease of 0.4% (2018: 10.3%). This is mainly due to the Group's increased management efficiency.

In 2019, the Company's research and development (R&D) expenses were RMB808.949 million (2018: RMB739.434 million), representing a YoY increase of 9.4%. This is mainly because the Company continued to increase R&D investment in cloud intelligent business during the reporting period, which further increased the total R&D expense. The Company's R&D expenses accounted for 6.7% of the revenue, representing a YoY decrease of 0.3% (2018: 7.0%).

FINANCIAL COSTS AND INCOME TAX

In 2019, the Company's finance costs were RMB166.045 million (2018: RMB117.987 million), representing a YoY increase of 40.7%. The Company's finance costs accounted for 1.4% of the revenue, representing a YoY increase of 0.3% (2018: 1.1%). The increase in financial expenses was mainly due to the Company's adjustment of its fund management strategy and strengthening of its capital reserves. During the reporting period, the Company's bank loans increased, resulting in an increase in interest expenses; on the other hand, it was due to the application of the new lease standard on 1 January 2019 to increase lease due to interest on liabilities.

In 2019, the Company's loss from derecognition of financial assets measured at amortised cost was RMB4.544 million (2018: RMB7.139 million), representing a YoY decrease of 36.3%.

In 2019, the Company's income tax was RMB42.272 million (2018: RMB44.283 million), representing a YoY decrease of 4.5%. The Company's effective income tax rate accounted for 5.3% (2018: 5.8%), representing a YoY decrease of 0.5%. The decrease in income tax was mainly due to the impact of preferential tax policies and additional deductions for research and development during the reporting period. In general, the basic tax rate will be stable in the future.

OTHER NON-CASH EXPENSES

In 2019, the Company's other expenses were RMB58.929 million (2018: RMB68.402 million), representing a YoY decrease of 13.8%. The Company's other expenses accounted for 0.5% of revenue, representing a YoY decrease of 0.1% (2018: 0.6%).

In 2019, the Company's impairment loss, under expected credit loss model, net of reversal was RMB74.812 million (2018: 35.200 million), representing a YoY increase of 112.5%. This was mainly due to the prudent principle during the reporting period, the Company further increased the provision for bad debts.

In 2019, the Company's impairment loss on goodwill was RMB35.760 million, this was mainly due to the Group's provision for impairment of goodwill on assets acquired in the previous period.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE (EPS)

In 2019, the Company's profit for the year was RMB756.686 million (2018: RMB716.171 million), representing a YoY increase of 5.7%. The Company's profit accounted for 6.3% of the revenue, representing a YoY decrease of 0.5% (2018: 6.8%). The Company's profit accounted for 6.5% of the service revenue, representing a YoY decrease of 0.4% (2018: 6.9%).

In 2019, the Company's profit for the year attributable to the owners of the Company was RMB754.888 million (2018: RMB715.803 million), representing a YoY increase of 5.5%.

Based on the profit for the year attributable to the owners of the Company, the Company's EPS was RMB30.71 cents (2018: RMB29.54 cents), representing a YoY increase of 4.0%.

SEGMENT REVENUE AND RESULTS

In 2019, the segment's growth of revenue and results are as follow:

	Revenue			Results		
	2019 RMB'000	2018 RMB'000	Growth Rate	**2019 RMB'000**	2018 RMB'000	Growth Rate
TPG	**10,458,258**	9,174,855	14.0%	**891,035**	795,281	12.0%
IIG	**1,583,637**	1,410,158	12.3%	**97,645**	133,064	(26.6%)
Total	**12,041,895**	10,585,013	13.8%	**988,680**	928,345	6.5%

In terms of segment revenue, TPG's revenue achieved a YoY growth of 14.0%, the main contribution to this growth came from the growth of large core customers including Huawei, Tencent, Ali, Ping An, and etc. IIG's revenue achieved a YoY growth of 12.3%. The main contribution for this growth came from the fast growth of Jointforce's Plan Z.

In terms of segment results, TPG's result achieved a YoY growth of 12.0%, lower than that of the revenue growth, this is mainly due to the decrease of gross profit margin of Huawei business line during the period, IIG's result has a YOY decrease of 26.6%, this is mainly due to the Group increased R&D input during the period.

The Group believes that after years of building foundations for cloud intelligent business, it is ready to enter into a fast growth and expansion phase, which will continuously provide the drive for the Group's revenue growth and increase the Group's profit margin.

FUNDRAISING ACTIVITIES

During the current and last reporting period, no fund raising activities had been conducted by the Group. The details of the fund raising activity which had been conducted by the Group with unused proceeds is summarized as below:

On 18 April 2017 and 18 May 2017, the Group entered into the Subscription Agreement and Supplemental Agreement respectively with Dan Capital Management Ltd. (the "Dan Capital") pursuant to which the Company has conditionally agreed to issue, and Dan Capital has conditionally agreed to subscribe for, the Convertible Notes in an aggregate principal amount of HK$900,000,000 due in 2022 ("2017 CN").

The 2017 CN was issued on 3 July 2017 under the general mandate granted to the Directors at the annual general meeting of the Company held on 18 May 2016. The intended use and actual use of the proceeds are as follow:

Net proceeds allocation	**Intended use of the proceeds**	**Actual use of the proceeds**	**The amount of the remaining net proceeds as at 31 December 2019 for the intended use**	**Expected time of utilisation** (Note)
Approximately HK$600 million	For mergers and acquisitions and establishing an M&A fund to upgrade new technological capability and strengthen the ecological construction of the cloud services;	(i) Approximately HK$43 million were used to upgrade new technological capability; (ii) Approximately HK$100 million were used for merger and acquisitions and establishing an M & A fund to invest in proprietary and reliable business, cloud computing, big data, artificial intelligent, and related industries and associate companies;	Approximately HK$457 million to be used for merger and acquisitions and establishing an M & A fund to invest in proprietary and reliable business, cloud computing, big data, artificial intelligent, and related industries and associate companies.	Before 31 December 2020

Net proceeds allocation	Intended use of the proceeds	Actual use of the proceeds	The amount of the remaining net proceeds as at 31 December 2019 for the intended use	Expected time of utilisation (Note)
Approximately HK$100 million	For upgrading the Jointforce to forge a comprehensive platform for the IT industry chain	Approximately HK$100 million were used for upgrading the Jointforce to forge a comprehensive platform for the IT industry chain	–	–
Approximately HK$200 million	For replenishing the Company's working capital and repaying certain bank loans with relatively higher interest rates	Approximately HK$200 million were used for replenishing the Company's working capital and repaying certain bank loans with relatively higher interest rates	–	–

Note: The expected time frame for fully applying the unutilised proceeds is based on the best estimation of the future market conditions and strategic development made by the Group, which may be subject to changes and adjustments based on the future development of market conditions.

As at 31 December 2019, a maximum number of 180,000,000 ordinary shares will be allotted and issued upon full conversion of 2017 CN at the initial conversion price of HK$5.00 per conversion share.

A. CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules have served as guideposts for the Company to follow in its implementation of corporate governance measures.

Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarized below.

In the opinion of the Board, the Group has complied with the CG Code from 1 January 2019 to 31 December 2019, except that (i) the roles of chairman and chief executive officer were performed by the same individual. The Board believes that by holding both roles, Dr. Chen Yuhong will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group. (deviated from code provision A.2.1 of the CG Code); (ii) independent non-executive Directors and other non-executive Directors, as equal Board members should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors and non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 20 May 2019 (the "2018 AGM") due to their respective business engagement. Other Board members who attended the 2018 AGM were available to answer questions to ensure effective communication with the shareholders (deviated from code provision A.6.7 of the CG Code).

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

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules relating to dealings in securities. In response to a specific enquiry by the Company, the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

C. BOARD OF DIRECTORS

1. *Composition of the Board of Directors*

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

Executive directors:

Dr. Chen Yuhong *(Chairman and Chief Executive Officer)*
Dr. Tang Zhenming

Non-executive directors:

Dr. Zhang Yaqin
Mr. Gao Liangyu
Mrs. Gavriella Schuster

Independent non-executive directors:

Mr. Zeng Zhijie
Dr. Lai Guanrong
Professor Mo Lai Lan

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

To the best knowledge of the Company, there are no financial, business and family relationships among members of the Board.

2. *Meetings and Board Practices*

Pursuant to the code provision A.1.1 of the CG Code, at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of the Directors, either in person or through other electronic means of communication.

During the year ended 31 December 2019, the Board held 4 regular board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance records of the board meetings and general meetings held are set out below:

	Attended/ Number of regular board meetings held	Attended/ Number of general meetings held during the year
Executive Directors		
Dr. Chen Yuhong	4/4	1/1
Dr. Tang Zhenming	4/4	1/1
Non-executive Directors		
Dr. Zhang Yaqin	4/4	0/1
Mr. Gao Liangyu	4/4	0/1
Mrs. Gavirella Schuster	4/4	0/1
Independent Non-executive Directors		
Mr. Zeng Zhijie	4/4	0/1
Dr. Lai Guanrong	4/4	0/1
Professor Mo Lai Lan	4/4	1/1

The Directors will receive details of agenda items for decision and detailed documents in advance of each Board meeting. The Company Secretary is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings.

3. *Functions of the Board of Directors*

The Board is accountable to the shareholders for managing the Company in a responsible and effective manner. Also, the Board decides on overall strategies and monitors the Group's performance.

The Board is responsible for the oversight of the Company's business and affairs with the objective of enhancing shareholder value. The Board also makes decisions on matters such as approving the annual results and interim results, notifiable and connected transactions, material acquisition, disposal or investments, appointment and re-appointment of Directors, declaring dividends and reviewing the effectiveness of the internal control system, etc.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the Executive Directors and the management. When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of the management, in particular, with respect to the circumstances where the management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

4. *Independent Non-executive Directors*

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

Mr. Zeng Zhijie was appointed on 21 April 2003 and has served as an independent non-executive Director for more than nine years. Pursuant to code provision A.4.3 of the CG Code, having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence. Mr. Zeng Zhijie have not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Board considers Mr. Zeng Zhijie to be independent under the Listing Rules despite the fact that they have served the Company for more than nine years.

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

5. *Chairman and Chief Executive Officer*

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

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

6. *Terms of Appointment of Non-executive Directors*

Each of the non-executive Directors of the Company is appointed for a specific term of three years and is subject to re-nomination and re-election by the Company in general meetings unless previously terminated in accordance with the terms and conditions of the relevant letter of appointment or director's service contract.

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

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

Prior to the convening of the annual general meeting of the company in June 2020, the board of Directors resolved that Dr. Chen Yuhong, Mr. Gao Liangyu and Mr. Zeng Zhijie should retire and stand for re-election at the annual general meeting in accordance with the requirements under the articles of association of the Company.

8. ***Board Diversity Policy***

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the reporting year and as at the date of this report, the Board comprises six male directors and two female directors. Out of the eight board members, one of whom is non-Chinese and the remaining seven directors are Chinese. They have expertise in IT, asset management, finance, accounting and auditing.

9. ***Directors' Training***

According to the code provision A.6.5 of the CG Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company encourages all Directors to attend relevant training courses and continuously updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2019, all Directors namely Dr. Chen Yuhong, Dr. Tang Zhenming, Dr. Zhang Yaqin, Mr. Gao Liangyu, Mrs. Gavriella Schuster, Mr. Zeng Zhijie, Dr. Lai Guanrong and Professor Mo Lai Lan have participated in continuous professional development, including attending seminars or training sessions and reading newspapers, journals and updates relating to economy, general business or directors' duties and responsibilities etc.. The Company also encouraged all Directors to participate relevant courses which enable them to develop and refresh their knowledge and skills for better fulfillment of the directors' duties.

10. ***Indemnity of Directors***

The directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in discharge of their duties while holding office as the directors and officers of the Company.

11. ***Company Secretary***

The Company Secretary assists the Chairman in preparing the agenda of the Board meetings and ensures all relevant rules and regulations of the procedures of such meeting are complied with. The Company Secretary files for and maintains the detailed minutes of each Board meeting, and makes such minutes available and accessible for all Directors.

According to Rule 3.29 of the Listing Rules, the Company Secretary of the Company has taken not less than 15 hours of relevant professional training for the year ended 31 December 2019.

D. BOARD COMMITTEES

1. *Remuneration Committee*

The remuneration committee of the Company (the "Remuneration Committee") was established on 28 June 2005 and amended its written terms of reference on 28 March 2012 to comply with the requirement in the CG Code. The terms of reference of the Remuneration Committee, a copy of which is posted on the website of the Company and the Stock Exchange, are in line with the provisions of the CG Code. The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the board of Directors for the remuneration of non-executive Directors. The Remuneration Committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management of the Company, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the period from 1 January 2019 to 31 December 2019, the Remuneration Committee comprised four Directors namely Dr. Lai Guanrong as the Chairman of the Remuneration Committee and Dr. Chen Yuhong, Mr. Zeng Zhijie and Professor Mo Lai Lan as the members of the Remuneration Committee. Dr. Chen Yuhong is an executive Director, and the remaining three members are independent non-executive Directors.

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

Name of Director	Number of attendance
Dr. Lai Guanrong *(Chairman)*	1/1
Dr. Chen Yuhong	1/1
Mr. Zeng Zhijie	1/1
Professor Mo Lai Lan	1/1

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors and senior management of the Company are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2020.

The Company adopted a new share option scheme on 20 May 2013 to replace the original share option scheme adopted on 2 June 2003, and adopted a share award scheme on 10 December 2018 which is valid and effective for a period of 10 years commencing on 10 December 2018. These schemes serve as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme and share award scheme are set out in note 41 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

2. ***Audit Committee***

The Company established an audit committee (the "Audit Committee") on 2 June 2003 and amended its written terms of reference on 28 March 2012, 31 December 2015 and 9 January 2019 to comply with the requirements in the CG Code. The terms of reference of the Audit Committee, a copy of which is posted on the website of the Company and the Stock Exchange, are in line with the provisions of the CG Code. The Audit Committee is mainly responsible for reviewing and supervising the Group's financial reporting and internal control system. The Audit Committee met at least on a semi-yearly basis during the year ended 31 December 2019.

During the period from 1 January 2019 to 31 December 2019, the Audit Committee comprised three independent non-executive Directors namely Professor Mo Lai Lan as the Chairman of the Audit Committee and Mr. Zeng Zhijie and Dr. Lai Guanrong as the members of the Audit Committee.

The Group's unaudited interim results, unaudited and audited annual results during the year ended 31 December 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

The Audit Committee reports to the Board and is delegated by the Board to assess matters related to the financial statements. Under its terms of reference, the Audit Committee has, amongst others, the following duties:

- making recommendation to the Board on appointment, re-appointment and removal of external auditor of the Group and considering the remuneration and terms of engagement of that external auditor;
- reviewing and monitoring the external auditor's independence and effectiveness of the audit process in accordance with applicable standard;
- reviewing the Group's financial controls, internal control and risk management system;
- reviewing the Group's financial and accounting policies and practices;
- ensuring that management has fulfilled its duty to establish and maintain an effective internal control and risk management systems;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board;
- reviewing and monitoring the integrity of the Groups' financial statements, annual reports, accounts and interim report;
- reviewing and monitoring the Company's policies and practices on corporate governance and the relevant legal and regulatory requirements and their compliances.

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

Name of member	Number of attendance
Professor Mo Lai Lan *(Chairman)*	2/2
Mr. Zeng Zhijie	2/2
Dr. Lai Guanrong	2/2

3. *Nomination Committee*

The Company established a nomination committee (the "Nomination Committee") on 28 March 2012 and amended its written terms of reference on 9 January 2019 to comply with the requirement in the CG Code. The terms of reference of the Nomination Committee, a copy of which is posted on the website of the Company and the Stock Exchange, in line with the provisions of the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and select and make recommendations to the Board on the appointment of Directors and senior management.

During the period from 1 January 2019 to 31 December 2019, the Nomination Committee comprised four Directors namely Dr. Lai Guanrong as the Chairman of the Nomination Committee and Dr. Chen Yuhong, Mr. Zeng Zhijie and Professor Mo Lai Lan as the members of the Nomination Committee. Dr. Chen Yuhong as an executive Director, and the remaining three members are independent non-executive Directors.

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

Name of Director	Number of attendance
Dr. Lai Guanrong *(Chairman)*	1/1
Dr. Chen Yuhong	1/1
Mr. Zeng Zhijie	1/1
Professor Mo Lai Lan	1/1

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the balance of expertise, skills, experience, gender, age, cultural, educational background, professional knowledge, personal integrity and time commitments of such individuals, the requirements of the business of the Group and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

4. *Corporate Governance Functions*

The Board was responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code. During the year, the Board has reviewed the Company's policies and practice on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code.

E. ACCOUNTABILITY AND AUDIT

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

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

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

2. *Internal Control*

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

3. ***Auditor's Remuneration***

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB7,780,000 to the external auditor for their audit services.

F. RISK MANAGEMENT AND INTERNAL MONITORING

1. ***Accountability***

The Board understands that its responsibility is to assess and determine the nature and level of risks that the Group is willing to accept in the process of reaching strategic targets, and to ensure the Group establishes and maintains an appropriate and effective risk management and internal control system. This system is aimed at managing and not eliminating the risk of not meeting business targets, and will provide reasonable but not absolute guarantee that major misrepresentations or business losses will not occur.

2. ***Structure of Risk Management and Internal Monitoring Governance***

The Board is responsible for the assessment and determination of significant risks and the effectiveness of risk management monitoring for the year; it is responsible for the maintenance of an appropriate and effective risk management and internal control system; it is responsible to make conclusions as to the effectiveness of the risk management and internal control system, after considering the work and review results of the Audit Committee.

The Audit Committee is responsible for assisting the Board in the assessment and monitoring of the risks encountered by the Group, the management of relevant risks, and the design and performance of the internal control system. It reports to the Board after properly reviewing the Group's annual risk management and the effectiveness of the internal control system.

The management is responsible for the proper design, implementation and monitoring of the Group's risk management and internal control system as authorized by the Board, and the confirmation provided to the Board as to the effectiveness of the relevant system.

The risk assessment team is responsible for the coordination of risk identification and assessment procedure, preparation of risk assessment reports, bringing identified risks to the attention of the Audit Committee, and reporting the actions taken in relation to the management of such risks.

The internal audit team is responsible for assisting the Audit Committee to review the effectiveness of the Group's risk management and internal control system, and to conduct independent assessments of the established risk management and internal control system in accordance with the internal control procedures.

Business divisions and functional operations department are responsible, in accordance with their duties, for identifying, assessing and responding to the risks relevant to their individual departments', and carrying out risk management procedures and internal control measures within the scope of their respective business and functional operations areas.

3. *Risk Management*

3.1 *Risk Management Objectives*

The objective of corporate risk management is to manage significant risks that the Company is faced with, and take specific responsive and monitoring actions on significant risks, through the establishment of a proper organizational system and management model. The specific objectives are as follows:

- Identify, assess, quantify, respond and manage all current and future significant risks, and contain them at all times at a level and in a scope acceptable to management;

- Establish a consistent and effective monitoring and reporting system for all significant risks;

- Provide reasonable assurance that the Company will comply with the requirements of relevant laws and regulations of external monitoring authorities, and that various departments comply with relevant internal rules and regulations;

- Provide reasonable assurance that significant measures to achieve the Company's targets are properly implemented.

3.2 *Major Processes of Risk Management*

Risk management mainly includes four major areas: risks identification, risks assessment, risks mitigation and risk monitoring and reporting.

Risk identification: each business and functional department conducts, at least once in a year, an identification of potential internal and external risks in its respective operation processes. During risks identification, references are mainly made to the impact the risks have on the Company's objectives, and major problems or risk incidents in the business activities for the past year. Risks identified are summarized and categorized to establish a risk data base.

Risk assessment: according to the risks assessment standards, each business and functional department reviews the risks identified, and assesses the possibilities of occurrence and the extents of impacts in order to screen out the significant risks. The Group adopts a combination of bottom-up and top-down risk assessment procedures to fully identify all of the Group's significant risks, which are then given rankings. Significant risks are then reported to the appropriate management level, Audit Committee and the Board. A final list of significant risks is confirmed after thorough communication and discussion.

Risks mitigation: the responsible department of the identified risks formulates a risk response plan by properly applying methods such as risk avoidance, risk reduction, risk sharing and risk retention, with consideration of the Group's level of risk tolerance. This allows the Group to properly allocate resources for risk mitigation or improvements on risk mitigation measures, with an aim to reduce the overall risk of the Group to an acceptable level.

Risk monitoring and reporting: risk monitoring and reporting are carried out by integrating the use of risk warning indicators, internal auditing and periodic summarized risk reports.

3.3 *Significant Risks*

In accordance with the corporate risk management framework, the Group conducted an overall risk audit and assessment in 2019. The following lists the significant risks of the Group and its major affiliates, the changes in the nature and level of these risks, and the relevant plans and monitoring measures to mitigate these significant risks.

Risk Type	Risk Item (Key Risks)	Response Mitigation Plan	Risk Trend
Risk in Market Competition	**Risk relating to intensifying market competition** With the development of new technologies and new forms of business such as cloud technology, big data and digitalization, as well as the continuous entry of competitors and the continuous upgrade of product technology, our customers' expectation of our products and services quality will continue to rise. An enterprise lacking core competitiveness and innovation capability will be unable to keep abreast of the rapid development of information technology.	While putting emphasis on technological innovations as well as improvements and upgrades of products, the Company also focuses on key industries and hot topics, and pays attention to customer experience. While striving to provide high quality products and services to its customers, it advocates a spirit of innovative and fosters a culture of creativity by setting up a special operation group known as Zero Distance Innovation. It introduces coaching on the Design Thinking (DT) method, and applies the concept of Zero Distance Innovation down to the business divisions with a commitment to achieving rapid upgrading of products and services cycles, leading to a win-win situation for the Company and the customers.	Increasing
Risk Relating to Business Continuity	**Risk relating to the disruption of business due to emergencies** In the face of unavoidable calamities such as natural disasters, public health emergency, social security and regional compliance issues, the Company's abilities to foresee potential crises, respond effectively to emergencies and ensure production and operation continuity are crucial for its stable development. Any disruption of business due to disasters will have a significant adverse impact on the Company.	From the vantage point of strategic management, the Company focuses on key businesses, pays attention to processes, personnel, facilities and plans. It has formulated the business continuity management (BCM) process framework by designing a BCM organization structure with top-down distributed management. It conducts special emergency drills for events such as fire, blackouts, typhoons, and virus attacks on IT network and systems, with which the emergency response ability of the emergency personnel can improve continuously.	Increasing

Risk Type	Risk Item (Key Risks)	Response Mitigation Plan	Risk Trend
Risk Relating to Social Responsibility	**Risk relating to inadequate implementation of corporate social responsibility** Corporate social responsibility is subject to the constant attention of investors, regulatory authorities and public opinions. A deficiency in corporate social responsibility will not only affect the brand reputation of the enterprise, but also severely restrict the sustainable development of the enterprise.	The Company adopted the SA8000 Standard and issued the "Corporate Social Responsibility Management Manual" and specific procedural documents, in order to standardize the programs and operating procedures of the corporate social responsibility (CSR) system, to organize professional training and assessments of internal auditors, to arrange for internal management reviews, and to enhance professionalism in constructing the CSR system. In daily operation, the Company fulfills a green and innovative environmental protection concept, reduces energy consumption, actively promotes and practices outstanding corporate citizenship, pays attention to the demands and expectations of stakeholders, and implements social responsibility communication and management.	No change
Risk Relating to Human Resources	**Risk relating to the market's competition for talents** To maintain the superb technical and management capabilities of the Company, it relies on a team of high-quality personnel. Under the backdrop of the Company's accelerated business development and the increasingly fierce competition for talents in the industry, it can only attract talents and develop their potentials by investing more in human resources such as recruitment and retaining of key talents. All these present a bigger challenge to the construction of the human resources management and system.	By continuously optimising the construction of the human resources system, the Company attracts, develops, motivates and retains talents that are required for its development. It optimizes the talent evaluation system and the supporting incentive mechanism, improves the advancement opportunities for the talents, strengthens the management of core employees and ensures the supply of a reserve talent pool, in order to secure sufficient talents for the Company's sustainable development.	No change

Risk Type	Risk Item (Key Risks)	Response Mitigation Plan	Risk Trend
Risk Relating to Intellectual Property Rights	**Risk of inadequate evidence in preserving intellectual property rights in case of infringement** Infringement of rights in the industry is common. The infringers may take actions such as concealment or destruction of infringed products, resulting in relatively great difficulties in defending the rights against infringement, which may bring certain economic losses to the Company.	The Company will reinforce its employees' awareness of intellectual property rights protection, set up an internal workflow for the application of intellectual property rights protection review and approval, clarify the job responsibilities and review contents of each department in the process, and assign designated staff to be responsible for the application, handling, archiving and certificate application of the intellectual property rights protection.	Reducing
Risk Relating to Network and Information Security	**Risk of improper maintenance of information security** The Company values the protection of its own and the customers' privacy information and trade secrets, as it understands that the leakage, loss or theft of its own or customers' sensitive information will have a major impact on itself and its customers.	The Company advocates that "everyone is responsible for information security". It continuously improves the information security awareness of all employees, by improving the information security management system, conducting regular training on prevention of information security risks, disseminating information security knowledge and company policies to employees and interpreting hot security information. The Company has formulate various management measures and procedures, promotes the setting up of a personal data and privacy system which fully considers and integrates data security requirements according to the applicable scenario. Various measures of security techniques such as identity authentication, authorization management, anonymity, desensitization, periodic deletion and encryption are adopted to ensure that products and services provided comply with privacy and security requirements.	No change

Risk Type	Risk Item (Key Risks)	Response Mitigation Plan	Risk Trend
Legal and Regulatory Risk	**Risk relating to violation of laws, regulations and regulatory requirements** With the development of the Company's business scale and the continued expansion of its overseas business, the accurate interpretation and compliance of domestic and overseas laws, regulations and industry policies is a major challenge for the Company. As the overseas business rapidly develops, it becomes exceedingly urgent to closely monitor the changes and development of the regulatory environment and strengthen the legal support for overseas business.	The Company has set up a variety of professional function teams to timely monitor the laws, regulations, policies and regulatory requirements in respect of corporate survival, business development, personnel employment, finance and taxation, and to respond to changes in the environment at all times. By formulating and establishing an overseas legal risk management system, and thoroughly studying the laws and regulations of the countries where the investments and business developments are located, the Company provides strong support for its overseas investment and operation. The standardized management of overseas employees and the prevention and control of risks in relation to overseas business trips are strengthened by the establishment of a comprehensive overseas emergency plan.	No change

4. Internal Control

4.1 Internal Control Objectives

The Board acknowledges its responsibility to supervise the effectiveness of the Company's internal control system, and a sound and effective internal control system is achieved through a management structure with explicit authorization and internal monitoring accountability. The objectives are:

- to reasonably assure that the enterprise is operated and managed in compliance with the laws and regulations, its assets are safe, and its financial reports and related information are true and complete;
- to enhance operating efficiency and performance;
- to promote the achievement of the enterprise's development strategies.

4.2 *Internal control*

The Group has referred to the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework, and incorporated the Group's business management characteristics in the design of its internal control system, and has established an internal audit team to take responsibility of the internal control function. During the year ended 31 December 2019, the Group completed risk-oriented internal assessments on day-to-day fund management, financial reporting management, procurement and inventory, asset management, and business and debt collection procedures, and periodically followed-up with the rectifications of the problems identified by internal audit. Management and Audit Committee reviewed the internal control assessment reports, and assessed the effectiveness of the Group's risk management and internal control systems. The scope of the review included the Group's major control and risk management functions, such as financial control, operations control and compliance control.

The Board considered that, as at 31 December 2019, the Group had carried out internal control's "plan, review, report and follow-up" processes of the close-loop management system, that the Group's risk management and internal control systems were effective and adequate, that the Company's procedures on financial reporting and the compliance of the provisions under the Listing Rules were effective and adequate and that no significant areas of concern that might affect the Group's financial control, operations control, compliance control and risk management functions had been uncovered.

In the process of the review, the Board considered that the resources, qualifications, experience of staff of the Group's accounting and financial reporting, as well as their training and budget were adequate.

4.3 *Inside information*

The Company is aware of and strictly comply with the requirements of the currently applicable laws, regulations and guidelines, including the obligations to disclose inside information under the Securities and Futures Ordinance and the Listing Rules, and the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission, at the time when the relevant businesses are transacted. The Group has established the authority and accountability, as well as the handling and dissemination procedures in relation to inside information, and has communicated to all relevant personnel and provided them with specific trainings in respect of the implementation of the continuous disclosure policy.

The Board considers that the Company's handling and dissemination procedures and measures in relation to inside information are effective.

G. INVESTORS AND SHAREHOLDERS RELATIONS

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

H. SHAREHOLDER'S RIGHTS

1. *How shareholders can convene an extraordinary general meeting*

Pursuant to Article 58 of the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

2. *The procedures by which enquiries may be put to the board and sufficient contract details to enable these enquiries to be properly directed*

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of Company in Hong Kong at Units 4607-8, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong by post for the attention of the Board.

3. *The procedures and sufficient contact details for putting forward proposals at shareholders' meetings*

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group be discussed at shareholders' meeting. Proposal shall be sent to the Board by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures as set out above.

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 99.

The Directors have recommended the payment of a final dividend of HK$0.0219 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2019. The proposed dividend payments from share premium account of the Company are subject to approval by the shareholders of the Company at the annual general meeting to be held on Monday, 22 June 2020 at 2:30 p.m.. Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid on Wednesday, 15 July 2020 to shareholders whose names shall appear on the register of members of the Company on Friday, 3 July 2020.

CLOSURE OF REGISTER OF MEMBERS

(a) For the purpose of determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020, both days inclusive. In order to qualify as shareholders of the Company to attend and vote at the AGM, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 16 June 2020.

(b) For the purpose of determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Tuesday, 30 June 2020 to Friday, 3 July 2020, both days inclusive. In order to qualify for the entitlement to the proposed final dividend, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 29 June 2020.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2019 are RMB1,786,142,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 33 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 13 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 204. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

(i) Review of our business

A review of the business of the Group for the year ended 31 December 2019 as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is set out in the sections headed "Chairman's Letter" and "Management Discussion and Analysis" on pages 3 to 6 and pages 30 to 39 respectively of this annual report.

(ii) Principal Risks and Uncertainties

The management is already aware of the principal risks associated with the Group's business and accordingly estimates and manages all kinds of risks encountered through inspection under the risk internal control system.

(1) Financial Risk

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes borrowings, convertible loan notes, net of cash and cash equivalents and equity attributable to the owners of the Company (including share capital, share premium, reserves and accumulated profits).

The Directors review the capital structure semi-annually. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new shares issues and as well as the issue of new debts or the redemption of existing debt.

Interest rate risk

Because of the fluctuations of calculating the interest rate of financial assets and liabilities, the Group bears interest rate risks. Interest bearing financial assets are mainly bank deposits (mainly of a short term nature); and interest bearing financial liabilities are mainly bank loans which are on a floating rate basis. The Group is exposed to fair value interest rate risk in relation to convertible loan notes, borrowing with fixed interest rates and amounts due to related companies. The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings and short-term bank deposits which are mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China in respect of an unsecured bank loan.

The Group's policy is to obtain the prime rate.

Currency risk

Several subsidiaries of the Company have bank balances and cash, trade receivables denominated in foreign currencies arising from income generated from provision of services, trade and other payables arising from purchases denominated in foreign currencies and borrowing, which expose the Group to foreign currency risk. The Group's principal operating subsidiaries are located in the PRC, the United States and Japan, and the Group's principal businesses are conducted in Renminbi. The Group is mainly exposed to United States Dollar, Hong Kong Dollar and Japanese Yen. The impact of foreign exchange exposure is minimal, and the management has kept on monitoring the movement of all foreign currency exposure.

Credit risk

The Group conducts business with credible third parties. The Group's policy is that all customers intending to conduct business on credit are required to pass a credit assessment procedure: in order to minimise the credit risk, the management of the Group has delegated specific persons responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(2) Business Risk

Market risk

Loss of market share is a market risk encountered by the Group. The Group constantly faces fierce market competition in the core markets of the PRC. The financial position of the Group may be adversely affected if it fails to respond to market changes resulting to loss of business to opponents. The Group has professional sales and client management teams and is committed to ensure that the existing clients and business will be retained through competitive quality services and pricing policy.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, safety standard, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

(iii) Significant events after the reporting date affecting the Group

The significant events which happened after the reporting date of 31 December 2019 affecting the Group are set out in the note 47 to the financial statements.

(iv) Future development of the Group

An indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Letter" and "Management Discussion and Analysis" on pages 3 to 6 and pages 30 to 39 respectively of this annual report.

(v) Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations; in particular, those have significant impact on the Group, such as the Listing Rules and the Revised Hong Kong Financial; Reporting Standards. The Audit Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

(vi) Environmental Policies and Performance

The Group encourages environmental protection and promotes awareness towards environmental protection in its daily business operation. For the year ended 31 December 2019, the Group is in compliance with international and national environmental standards and implemented green production policies to raise efficiency and minimize both energy consumption and pollutant discharge. The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the Group's business operation to enhance sustainability.

(vii) Key Relationships with Employees, Customers and Suppliers

As at 31 December 2019, the Group had a headcount of 61,380 employees (31 December 2018: 62,495). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market as well as the minimum wages guideline as prescribed by the local government from time to time.

The Group awards discretionary bonuses to eligible employees based upon profit achievements of the Company and individual performance. The Company has also adopted a share option scheme and share award scheme in order to attract and retain the best available personnel and to align the interests of the employees with the Group's interests. Being people-oriented, the Group ensures all staff are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

The Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality. The Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

PERMITTED INDEMNITY

Pursuant to the Company's articles of association, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. The Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors and officers of the Group during the year ended 31 December 2019.

DIRECTORS

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

Executive Directors:	Non-executive Directors:	Independent non-executive Directors:
Dr. Chen Yuhong	Dr. Zhang Yaqin	Mr. Zeng Zhijie
Dr. Tang Zhenming	Mr. Gao Liangyu	Dr. Lai Guanrong
	Mrs. Gavriella Schuster	Professor Mo Lai Lan

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

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

Details of the Directors' appointment and resignation are set out in the Corporate Government Report of this annual report.

DIRECTORS' SERVICE CONTRACTS

Dr. Chen Yuhong has entered into a service agreement with the Company. Particulars of the contract, except as indicated, are in all material respects identical and are set out below:

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

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

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

(iv) Dr. Chen Yuhong shall abstain from voting and shall not be counted in the quorum in respect of the resolution regarding the amount of management bonus payable to himself.

Dr. Tang Zhenming has not entered into service agreements with the Company as an executive Director.

Dr. Zhang Yaqin and Mr. Gao Liangyu have entered into service agreements as non-executive Directors with the Company for a term of three years from 1 October 2014 and 3 July 2017 respectively. Mrs. Gavriella Schuster has entered into a letter of appointment with the Company as a non-executive Director for a term of three years from 20 September 2018. The appointment of the non-executive directors have continued since expiry of such term.

Mr. Zeng Zhijie and Professor Mo Lai Lan were appointed as independent non-executive Directors pursuant to letter of appointment for a term of two years from 20 June 2003 and 15 August 2018 respectively, and their appointments have continued since expiry of such term. Dr. Lai Guanrong has not entered into any service agreement as an independent non-executive Director with the Company.

Details of the Directors' remuneration are set out in note 10 to the financial statements. Save as disclosed in note 10 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 662G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company of any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2019, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors.

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

Name	Capacity	Number of issued ordinary shares held	Number of underlying shares held under equity derivatives	Total number of shares	Total approximate % of the issued share capital as at 31 December 2019
Chen Yuhong	Beneficial owner, through controlled corporation, founder of discretionary trust and beneficiary of trust	266,192,861	–	446,192,861	17.54%
	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	–	180,000,000 *(note 1)*		
Tang Zhenming	Beneficial owner and beneficiary of trust	11,827,765	–	11,827,765	0.46%
Zhang Yaqin	Beneficial owner	1,500,000	–	1,500,000	0.06%
Gavriella Schuster	Beneficial owner	–	1,000,000 *(note 2)*	1,000,000	0.04%

Notes:

(1) Pursuant to the subscription of convertible notes with a total principal amount of HK$900,000,000 (the "Dan Capital CB") issued by the Company on 3 July 2017 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership (collectively known as the "Dan Capital CB holders"), a concert party undertaking was entered by Dr. Chen Yuhong and the Dan Capital CB holders to regulate their dealings in the shares of the Company on 24 May 2017. As such, Dr. Chen was deemed to be interested in 180,000,000 underlying shares of the Company held by the Dan Capital CB holders for the purposes of section 317 of the SFO. The interests in 180,000,000 underlying shares of the Company represent 50,800,000 and 129,200,000 ordinary shares which will be allotted and issued to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership respectively upon conversion of the Dan Capital CB.

(2) The interests in underlying shares of the Company represent interests in options granted to the Director.

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 1 January 2019	No. of share options granted during the year	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2019	Percentage of total issued ordinary share capital of the Company as at 31 December 2019	Total No of underlying ordinary shares interested in	Percentage of total issued ordinary share capital of the Company as at 31 December 2019	Note
Gavriella Schuster	5.22	1,000,000	–	–	1,000,000	0.04%	1,000,000	0.04%	(1)

Notes:

(1) These share options were offered on 28 September 2018 under the share option scheme of the Company adopted on 20 May 2013 and accepted on 26 October 2018. The share options are exercisable for a period of 3 years from the date of offer subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
28/09/2018	27/09/2021	30% of the total number of share options granted
28/09/2019	27/09/2021	30% of the total number of share options granted
28/09/2020	27/09/2021	40% of the total number of share options granted

Save as disclosed above and so far as was known to the Directors, as at 31 December 2019, none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code, to be notified to the Company and the Stock Exchange.

As at 31 December 2019, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 31 December 2019, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year ended 31 December 2019, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2019, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 2019, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2019.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was originally adopted by the Company for a period of 10 years pursuant to a written resolution of all the shareholders of the Company on 2 June 2003. Such Share Option Scheme was subsequently terminated on 20 May 2013 and a new share option scheme (the "New Share Option Scheme") with substantively similar terms to the Share Option Scheme was adopted on the same day at the AGM of the Company for a further 10 years. As at 31 December 2019, no more share options granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding and 185,960,000 Shares (2018: 235,960,000 Shares) granted to certain directors, employees and suppliers of the Group pursuant to the New Share Option Scheme were outstanding, representing 7.31% (2018: 9.57%) of the total issued ordinary share capital of the Company as at 31 December 2019. The terms on the exercise of such share options granted as set out in note 41 to the financial statements and notes 1 in the section headed "Directors' Interests in Shares" above.

During the reporting year, an aggregate of 50,000,000 share options were lapsed.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme and the New Share Option Scheme as at 31 December 2019.

SHARE AWARD SCHEME

The share award scheme (the "Share Award Scheme") was adopted by the Company on 10 December 2018. The Share Award Scheme shall be valid and effective for a period of 10 years commencing on 10 December 2018. The purposes of the Share Award Scheme are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Details of the Share Award Scheme are set out in the announcement of the Company dated 10 December 2018 and note 41 to the financial statements.

During the year ended 31 December 2019, a total consideration of approximately HK$441,308,000 (2018: HK$86,842,000) has been used to acquire 123,932,000 shares (2018: 22,078,000 shares) of the Company from open market by the independent trustee of the Company. No shares have been granted to the selected employees of the Group under the Share Award Scheme up to the date of this report.

As at 31 December 2019, 146,010,000 shares (2018: 22,078,000 shares) of the Company were held by the independent trustee of the Company, representing 5.74% (2018: 0.90%) of the total issued ordinary share capital of the Company as at 31 December 2019.

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2019.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CONNECTED TRANSACTIONS

During the year, the Company had not entered into any transactions required to be disclosed as connected transactions and/or continuing connected transactions in accordance with the requirements of the Listing Rules. Related party transactions set out in note 43 to the financial statements are not required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 68.73% of the Group's total turnover and the Group's largest customer accounted for approximately 54.61% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 47.06% of the Group's total purchases and the Group's largest supplier accounted for approximately 17.81% of the Group's total purchases.

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

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 December 2019, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions/short positions in Shares

Name	Nature of interest	Approximate number of Shares	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Dan Capital Tangkula Limited Partnership *(Note 1)*	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	446,192,861 (L)	17.54%	16.38%
Dan Capital Kunlun Limited Partnership *(Note 1)*	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	446,192,861 (L)	17.54%	16.38%
UBS Group AG *(Note 2)*	Person having a security interest in shares	3,998,003 (L)	0.16%	0.15%
	Interest of controlled corporations	255,183,301 (L)	10.03%	9.37%
	Interest of controlled corporations	40,908,151 (S)	1.61%	1.50%
Bank of Communications Trustee Limited *(Note 3)*	Trustee	146,010,000 (L)	5.74%	5.36%
Prime Partners Development Limited *(Note 4)*	Beneficial interest	140,572,725 (L)	5.52%	5.16%

* *The total number of issued share consists of 2,544,307,358 ordinary shares and convertible notes which could be converted into 180,000,000 ordinary shares.*

Abbreviations: "L" stands for long position
"S" stands for short position

Notes:

(1) Pursuant to the subscription of convertible notes with a total principal amount of HK$900,000,000 (the "Dan Capital CB") issued by the Company on 3 July 2017 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership (collectively known as the "Dan Capital CB holders"), 50,800,000 and 129,200,000 ordinary shares which will be allotted and issued to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership respectively upon conversion of the Dan Capital CB. A concert party undertaking was entered by Dr. Chen Yuhong and the Dan Capital CB holders to regulate their dealings in the shares of the Company on 24 May 2017, as such, Dan Capital CB holders were deemed to be interested in 266,192,861 underlying shares of the Company held by Dr. Chen for the purposes of section 317 of the SFO.

(2) UBS AG, UBS Asset Management (Amercias) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd., UBS Asset Management Trust Company, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG, UBS Securities LLC and UBS Switzerland AG are the wholly-owned subsidiaries of UBS Group AG. Accordingly, UBS Group AG is deemed to be interested in the long positions of 259,181,304 shares and short positions of 40,908,151 shares in the Company held by these companies as disclosed above. Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 26 December 2019 for further details of the shareholding structure.

(3) On 10 December 2018, the Company entered into a trust deed to appoint Bank of Communications Trustee Limited as trustee of the trust and to manage the trust fund and to administer the Share Award Scheme of the Company.

(4) Dr. Chen Yuhong is deemed to be interested in 140,572,725 Ordinary Shares and through Prime Partners Development Limited, which is wholly owned by Dr. Chen Yuhong.

Save as disclosed above, as at 31 December 2019, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the open market a total of 123,932,000 shares of the Company at a total consideration of approximately HK$441,308,000.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme and share award scheme as an incentive to the Directors and eligible employees, details of the scheme is set out in note 41 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of Directors (on a named basis) and the five highest-paid employed (including the senior management of the Group) are set out in note 10 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

COMPETING INTERESTS

As at 31 December 2019, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDITOR

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

On behalf of the Board

Dr. Chen Yuhong
Chairman & Chief Executive Officer

Beijing, 27 April 2020

As one of the leading global software and information technology service providers in the industry, with the vision of "becoming a world-class leader" and the mission of "serving to promote advancement by informatization", the Group is always committed to the core values of "keeping true heart of kindness, determination and perseverance, striving for success, sharing and growing with customers". The Group strives to achieve the harmonious development of corporate values, employee values, investor values and social values. The Group actively advocates and practices excellent corporate behavior and focuses on the impact of its own development on society and the environment. It also proactively assumes corporate social responsibility and helps create a more friendly and sustainable society.

In the process of its rapid business growth, the Group actively enhances the performance of the Board in respect of the environment, society and governance, forming a corporate governance structure with clear power and responsibilities, good division of labor, effective checks and balances, and scientific decision-making. The Board assumes the overall responsibility of the Group for its environmental, social and governance aspects. To further implement the environmental, social and governance work, the Environmental, Social and Governance Working Group, which reports to the Board, has been established. It is responsible for implementing the Board's strategies and policies and facilitating the management and implementation of environmental, social and governance matters. The Group has compiled and summarized its environmental, social and governance issues, and compiled this report in accordance with the requirements of Appendix 27 to the Listing Rules of the Stock Exchange of Hong Kong (the "Environmental, Social and Governance Reporting Guide") with reference to the Global Reporting Initiative (GRI) standards. The governance affairs of the Group are set out in the Corporate Governance Report section of this annual report. This report covers the period from 1 January 2019 to 31 December 2019 (the "Reporting Period") and covers the headquarters and affiliated companies of Chinasoft International Group (hereinafter referred to as "the Group").

STAKEHOLDER IDENTIFICATION AND COMMUNICATION

The Group is committed to continuously establishing its multiple channels of communication with stakeholders, protecting the interests of all stakeholders and effectively addressing its social responsibility communication and management. The Group has identified key stakeholders closely associated with its operation and established its environmental, social and governance priorities by analyzing the needs from its stakeholders. The Group's major stakeholders include:

Stakeholders	Communication channels	Expectations
Government and regulatory bodies	Study on policy issues and guidance documents; participate in meetings and trainings organized by relevant authorities and associations; Work closely together with relevant authorities during review and inspections	– Compliance with laws and regulations – Integrity in the business – Payment of taxes according to the law – Assured product safety – To drive forward the technological progress
Shareholders and investors	Convene shareholders' and investors' meetings; Publish reports and announcements; Publish news and information via company's websites and social media; Telephone and face-to-face communication with investors	– Continuous improvement of business performance – Sound corporate governance – Operations compliance management – Timely and full disclosure of information
Customers	Telephone and face-to-face communication with customers; Carry out surveys on customers' requirements and service satisfaction questionnaire	– To assure product and service quality, and to expedite innovation and upgrade – To ensure delivery on schedule and to perform product responsibility – To ensure the security of customer information – To meet the diverse needs of customers
Employees	Conduct questionnaire surveys; Organize employee discussion forums; Face-to-face communication with employees; Organize parties and interactive activities for employees and their families; Establish online communication and Q&A platforms	– To protect the interests of employees – Caring for occupational health of employees and workplace safety – To provide training and development opportunities – To offer fair and reasonable remuneration packages
Suppliers	Conduct assessments and interviews through on-site visits; Email and telephone communication	– Open, equitable and fair procurement – Fulfillment of contracts, creation of mutual benefits and win-win situations – Stable demand and common development
Community	Maintain networking and dialogue with the community; Participate in community activities	– To protect the social environment – To support community development – Equal opportunity employment and protection of human rights

Determination of Material Issues

To further identify key areas of corporate environmental, social and governance practices and information disclosure, and continue to improve the focus and responsiveness of the report, the Environmental, Social and Governance Working Group, through adequate communications with stakeholders, summarizes and identifies material issues of stakeholders' concerns, and determines the level of materiality, in accordance with the requirements of the "Environmental, Social and Governance Reporting Guide" and the "Environmental, Social and Governance Reporting Guidelines" of the Hong Kong Stock Exchange and the GRI standards. The relevant information on the Group's operational management is disclosed as accurately and comprehensively as possible.

Scope of the "Environmental, Social and Governance Reporting Guide"		Material Environmental, Social and Governance Issues of the Group
A.	**Environment**	
A1	Emissions	Carbon emissions and solid waste management
A2	Use of resources	Green operations and reduction of energy consumption
A3	Environment and natural resources	Green commuting and green services
B.	**Society**	
B1	Employment	Equality and diversity in employment; caring for employees
B2	Health & safety	Occupational health and staff safety
B3	Development and trainings	Staff trainings and development
B4	Labor standards	Prohibition of child and compulsory labor
B5	Supply chain management	Open and fair procurement
B6	Product Responsibility	Technology innovation, product quality and customer information security
B7	Anti-corruption	Fighting against corruption and promoting integrity
B8	Community Investments	Community welfare

A. ENVIRONMENT

As a leading global software and information technology service provider, the Group fulfills its environmental responsibility to "promote energy saving and emission reduction, and provide green solutions for the establishment of cities that are environmentally friendly and intelligent". It advocates and practices outstanding corporate citizenship, and strives to pursue common improvement of corporate value, employee value, investor value and social value. Despite the relatively small impact of its operations on the environment, the Group strives to implement the philosophy of innovative environmental protection into each detailed step of its daily operations by integrating green office, energy conservation and emission reduction. In addition, the Group strictly complies with environmental laws and regulations and industry policies, including the "Environmental Protection Law of the PRC" and the "Law of the PRC on Prevention and Control of Air Pollution". During the Reporting Period, the Group did not have any major non-compliance in relation to environmental laws and regulations, nor was it involved in any litigation in relation to environmental pollution.

A1 Emissions

As a software and information technology service provider, the Group's environmental impact mainly derives from the consumption in its office space. Emissions are mainly from greenhouse gases generated by its energy consumption, domestic sewage, as well as hazardous and non-hazardous waste ranging from waste computer (electronic waste) to household waste, etc.. The Group is concerned about environmental protection. It proactively responds to the government's advocacy of energy conservation and emission reduction by promoting waste classification to reduce white waste pollution. By setting up pantries with electric equipment such as microwave ovens and refrigerators, employees are encouraged to bring their meals to work to reduce the generation of white wastes such as disposable lunch boxes. Through posting of e-waste logos, sorting out the household wastes from the electronic wastes, and identifying qualified enterprises for centralized recycling, the Group can reduce its waste of resources and pollution on the environment.

Disclosure of Emission Information

Indicators	Data for 2017	Data for 2018	Data for 2019
Greenhouse gas emissions from direct sources (tons CO_2 equivalent)	81	72	60
Greenhouse gas emissions from indirect sources (tons CO_2 equivalent)	12,948	13,757	14,605
Greenhouse gas emissions due to employees' business trips (tons CO_2 equivalent)	4,384	5,872	6,197
Total greenhouse gas emissions (tons CO_2 equivalent)	17,413	19,701	20,862
Greenhouse gas emission per million dollars operating income (tons CO_2 equivalent/$million)	1.88	1.86	1.73
Total emission of domestic waste water (tons)	188,102	200,539	209,496
Total domestic garbage from office operation (tons)	3,926	4,500	4,821

Note: The statistical scope of the Company's emissions data includes the actual data generated by the subsidiaries of Chinasoft International Group registered in the PRC but exclude the data from the overseas offices. Of which, the increase in power consumption and aircraft mileage due to growth in business, increased office spaces and collaborative work of cross-regional employees has led to an increase in greenhouse gas emissions. However, the overall increase was lower than the growth rate in business volume. In addition, the increased discharge of domestic sewage and office garbage is directly related to the increase of office spaces.

A2 Use of Resources

The Group advocates green office and formulates a series of environmental management measures on energy conservation, by integrating the concept of low-carbon management into its daily operations. These include: implementing "five turn-offs" on premises, promoting the use of electronic documents, reducing unnecessary printing, and using recycled paper for ordinary printing to reduce the amount of paper used. Water-saving signs are posted in washrooms and "turn-off the lights" labels are affixed to switch panels. In addition to continuing its energy-saving and environmental initiatives from previous years, the Group has further developed a series of activities during the reporting period, aiming at reducing resource and energy consumption:

- The control panels of ventilation system and central air-conditioning system installed on new premises are equipped with thermometers and independent switches such that adjustments can be made according to the circumstances of the actual environment to reduce energy consumption.

- In compliance with the renovation requirements of the Company, energy-saving equipment is used with the priority of using the used ones. In 2019 when the Gangtou Building and the Tian'an Yungu premises in Shenzhen were being renovated, the original incandescent lamps were replaced with 1,196 LED lights, resulting in an expected saving of 21,614 kWh electricity throughout the year. When the Xi'an base premises was constructed, 158 pieces of office furniture, 4 sets of independent air conditioners, 11 switches, 4 computer cabinets and 3 sets of UPSs were used items.

- Management measures such as purchasing spare parts for maintenance and repair of failed assets, recycling of internal memories and hard drives of end-of-life host computers. Used computer spare parts, including 813 strips of memory, 925 hard drives, 121 graphics cards and 1,159 power cords, were recycled.

Disclosure of Resources Utilization Information

Indicators	Data for 2017	Data for 2018	Data for 2019
Consumption of gasoline (liters)	37,067	33,178	27,266
Electricity consumption (10,000 kWh)	1,937	2,223	2,369
Consolidated water consumption per million dollars operating income (10,000 kWh/$million)	0.21	0.21	0.20
Consolidated energy consumption (tons standard coal)	2,421	2,770	2,941
Consolidated energy consumption per million dollars operating income (tons standard coal/$million)	0.26	0.26	0.24
Water consumption (tons)	221,296	235,928	246,466
Consolidated water consumption per million dollars operating income (tons/$million)	23.94	22.29	20.47

Note: The statistical scope of the Company's resource utilization data includes the actual data generated by the subsidiaries of Chinasoft International Group registered in the PRC but exclude the data from the overseas offices. Of which, the growth in business volume and the increased office spaces and collaborative work of cross-regional employees have led to an increase of electricity and water consumption. However, the overall increase was lower than the growth in business volume.

A3 **Environment and Natural Resources**

As an enterprise with a focus on environmental protection, and as a software and information technology service provider, the Group does not involve in any large-scale production processes and has no business which may incur significant impacts on the environment and natural resources. However, the Group continues to innovate and invest in environmental protection, research and development of energy-efficient products, and is committed to helping society reduce carbon emissions. During the Reporting Period, the Group continued to develop the "Digital Environment" business by applying information, internet, automatic control, communication and other high technologies to environmental protection areas at global, national, provincial and municipal levels. By continuously improving cloud computing technology to ensure the business continuity of "Digital Environment" projects, we have substantially reduced power costs, air conditioning installation costs and energy consumptions. At the same time, such projects can improve office efficiency and save information costs, such that we can improve our environmental management innovation and our efficiency in environmental law enforcement.

In addition, the Group strives to further reduce the impact on the environment and natural resources in its daily operations. Our initiatives include:

- In response to national calls for energy conservation and emission reduction, our Wuhan office in Central China region joined the Outsourcing Alliance's Shared Shuttle Program, which has greatly reduced the proportion of employees driving to and from work. All vehicles under the Program are new energy electric vehicles, which have been increased from three at the beginning of the program to ten, serving nearly 500 employees. This has effectively reduced the exhaust gas emission caused by vehicle travelling. In addition, charging points have been installed in the Xi'an Base Campuses so as to encourage employees to use new energy vehicles for the sake of reducing exhaust gas emissions.

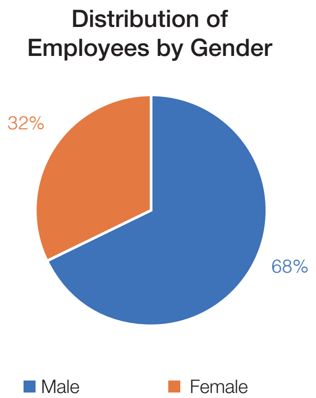
B. SOCIETY

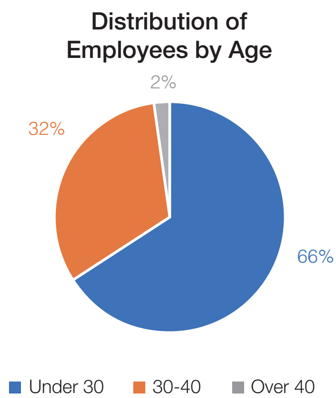
In the process of working its way to become a world leader, the Group takes into account the needs of stakeholders such as employees, suppliers, customers and the community. It actively performs its corporate social responsibility by demonstrating great concerns over its employees and their development, establishing a healthy and effective supplier management system, focusing on customer experience, continuously improving product quality and participating in charity activities. It is also committed to improving the well-being of its employees, the satisfaction of its partners and the recognition of the society, and endeavors to achieve a harmonious development maximizing the interests of its stakeholders.

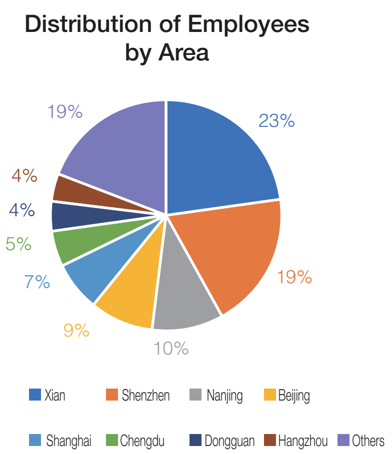
B1 Employment

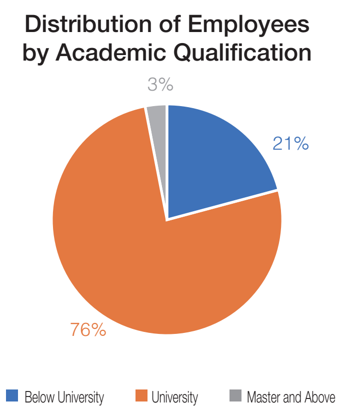
The Group strictly adheres to labor laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Regulation on Work-Related Injury Insurances. During the Reporting Period, the Group developed the administration policies including the "Attendance Management General Rules of ChinaSoft International" (《中軟國際考勤管理總則》) and the "Notice on Reaffirmation of Attendance Compliance Management" (《重申關於考勤合規管理的通知》) on the foundation of the "Employee Handbook", providing further protection to the employees' legal rights and interests.

Consistently adhering to the "people-oriented" concept, the Group provides the employees with a fair and equal opportunity employment environment. Meanwhile, it also emphasizes on cultivating their capabilities and qualities in order to provide a solid assurance for the improvement of the Company's core competitiveness. The Group implements diversity management in areas including gender, ethnicity, age, academic qualifications and other characteristics, recruits talents through various channels including on-campus and off-campus recruitments, and provides both full-time and part-time positions, thereby promoting diversity in the composition of our employees. As of 31 December 2019, the Group had a total of 61,380 employees across the nation and in various countries around the world. Among them, there were 2,119 fresh graduates, 2,824 ethnic minorities including Hui, Tujia, Manchu and Zhuang, accounting for about 4.57% of total number of employees. There were also 217 employees with disabilities, accounting for about 0.35% of total number of employees. The distribution of the Company's employees by gender, age, area and academic qualification is set out as below:









The Group continues to optimize its human resources system, improving the talent development and talent identification management scheme, and providing equal opportunities and reasonable promotion channels. It has established a management system of functions, roles and ranking and employee qualifications to optimize the flow of talents. The Group has also improved the talent evaluation system and the supporting incentive scheme. This provides not only objective and fair opportunities but also a platform for the talents to grow, so as to the sustainable development of the Group.

During the Reporting Period, the Group, focusing on staff development and corporate culture building, has organized several large-scale events nationwide, for the purpose of enhancing team cohesion, highlighting cultural care, motivating employees' enthusiasm and strengthening our brand influence. These events include but not limited to the following:

"Wait for an opportunity to rise while accumulating strength" – a party of the Chinasoft family

In 2019, the Chinasoft International JointForce Carnival was held simultaneously in 9 cities across the country. Our customers, the ecological partners of the JointForce Cup, outstanding employee representatives and the management of the Company gathered in the capacity of friends and family members to review the outstanding achievements in 2018, and look forward to 2019 in which difficulties and opportunities coexisted. The outstanding employees and working teams were recognised and commended, the future development direction was clarified, and the employees were guided to enhance their organizational capability, creativity and willpower.

"Sharing family times, and working together to achieve the corporate vision" – Chinasoft's Family Day

In 2019, the Group organized Chinasoft International Family Days in a number of places by building a platform for the exchange and communication among enterprises, employees and their families. Together, they shared the mental experience of Chinasoft's international people, and thanked their families for their understanding and support. With the exuberant activities, all participants felt the happiness and warmth of the family and the care of the Group for the employees, and thus enhancing the employees' sense of belonging, pride and responsibilities.

"Worry-free environment for strivers" – the launch of Chinasoft International Childcare Center

In 2019, the Group set up a pilot childcare center for its employees in Shenzhen, which is open free of charge for the children of the right age of ChinaSoft International's employees. With people-oriented and professional services, it creates a healthy growing space for the children and provides those who are fighting for their goals with a worry-free environment in which they can develop. The "Striver-oriented" concept is a corporate cultural heritage and a core value of human resources management. The Group is eager to help tackle the difficulties encountered by the employees, especially the two-job families, in striking a balance between work and family. Since its establishment, the childcare center has been receiving enthusiastic responses from the employees at all levels, with improved employees' cohesion and sense of belongings. Subsequently, the Group will further adjust and improve the childcare center in accordance with business planning, by gradually extending the service hours and scale of coverage, and gradually expanding pilot operations to other regions.

B2 Health & Safety

By adhering to the principle of "taking prevention as the major approach and prioritize precautions over contingencies", the Group always takes the physical and mental health and safety of employees as the first priority. To this end, the Company is committed to creating a healthy and comfortable working environment for its employees. During the Reporting Period, it renovated and remodeled the main office premises in major cities across the country, by purchasing additional office and conference facilities according to actual needs, increasing the supply of direct drinking water and hot water and improving the washroom environment and the illumination in offices. It also improved indoor air quality consistently by increasing the coverage and replacement frequency of green plants, and disinfected and cleaned the office space on a regular basis to reduce the risk of virus spreading. Seeing the importance of physical and mental health of employees, the Group organized psychological assessments for candidates, employee forums and content-rich EHS 3+1 activities to create a harmonious and caring corporate atmosphere. In order to prevent occupational diseases and protect occupational health of laborers, the Group organized medical examinations for employees and conducted prevention and management of occupational diseases for employees of special types of jobs during the Reporting Period. The Group provided supplementary commercial insurance benefits for employees with service period of three years or more, including supplementary medical, critical illness, accidental injury and life insurance coverages, paying a total of more than RMB3.28 million for the employees and benefiting 16,769 employees. For employees with service period less than three years, the Group provides the means to purchase supplementary commercial insurances at prices much lower than the market price, benefiting 2,790 employees.

In addition, during the Reporting Period, the Group conducted fire drills across the country to improve employees' safety awareness and response time. In Xi'an, four sessions of 120 first-aid trainings and certifications were organized to improve employees' emergency rescue ability and self-aid and buddy care ability in case of emergencies and accidental injuries. At the EHS Free Clinic event organized in winter, the medical team of a 3A traditional Chinese medicine hospital in Shaanxi Province was invited to provide employees with scientific health knowledge, reminding them to raise their health awareness and pay attention to their own physical conditions.

B3 Development and Training

Focusing on the development and cultivation of talents, the Group is committed to stimulating the full development of employee's potentials and building a development system for talents of high potentials, with an objective to continuously heighten the vitality of the organization and help employees improve their professional qualities, thus realizing their own values, promoting their all-round personal development as well as the sustainable development of the Company. During the Reporting Period, the Group organized various operation trainings and communication sessions for employees, including orientation for new recruits, training for project managers, TC&TSE and SE&MDE trainings, training for fresh graduates, corporate culture building and empowerment training, helping the employees enhance their professional capabilities. The Group also conducted internal and external trainings for the management by dispatching 54 members of middle and senior management to participate in the management training in Hua Ying. As of 31 December 2019, a total of 99,157 persons participated in various kinds of trainings of the Group throughout the year, with an average satisfaction rate of 95.28%. The professional capabilities and morale of the employees were greatly enhanced, with improved competitiveness of the team.

“Benchmarking the SA8000 standard to improve the professionalism in the construction of a corporate social responsibility (CSR) system”

In 2019, the Group conducted an internal auditor training on the SA8000 standard (CSR system) by engaging a professional consulting institution to explain the standard systematically. Such training provided significant professional guidance in constructing the Group’s CSR system, helping to enhance the management level of the Group’s social responsibility system, and ensuring the sustainable development of business, so as to meet the more stringent requirements of the customers on the Group’s social accountability. Upon the completion of the training, 26 CSR officers of the Group obtained the SA8000 standard internal auditor certificates issued by the consulting institution. With the joint support of professional consultants, internal auditors and employee representatives, as well as the reference to the SA8000 standard, the Group strengthened the construction of its CSR components and improved its social responsibility system during the Reporting Period. Continuous improvements were made by promoting the standard, completing the internal audit and management review processes. Great efforts were made to bring the construction of CSR system to a new level of professionalism.

“Developing employees’ potentials by focusing on hot topics”

In 2019, the Group organized solution experts, pre-sales experts, consultants, system architects and delivery managers to directly engage in business guidance, consulting services and structural designs in data business training on corporate digitalization and cloudification. Based on the current concept of social data, which finds its roots in corporate structures and system constructions, the training focused on hot topics including enterprise digitization, cloudification and the concept of central platforms. Discussions were centered on planning corporate structures, standardizing the construction of business systems and central platform services systems, launching data cleansing to improve data quality and determining the correct implementation methods for data engineering projects from the perspective of data analysis. The objective is to increase the knowledge of various business units on the concepts of data and improve their abilities in pre-sales and consulting services based on such understanding. With these trainings, employees were empowered with knowledge in areas including data services as well as the technical development, practices and trend of big data.

In addition, the Group continued to organize quality assurance for engineers (QA) including qualification certification, QA professional certification interviews, and project manager professional certification interviews. As of 31 December 2019, the Group has accumulated a total of 1,453 certifications for project managers and 298 QA professional certifications, 178 QA qualification certifications (including ISO9001:2015 internal auditors, agile coach CSM and 6 Sigma green belts).

B4 Labor Standards

The Group strictly adheres to labor laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Regulation on Work-Related Injury Insurances, and strictly abides by the management policies established in accordance with the international policies for the prevention of child labor and forced labor, as well as the relevant policies and regulations established by the countries and locations where our operations are located. During the Reporting Period, the Group insisted on standardizing its employment according to law, by improving the recruitment and approval of appointment process, optimizing the overtime and work shift systems and encouraging employees to make proper arrangement of their leaves. Meanwhile, CSR construction was launched in strict compliance with the SA8000 standard during the CSR internal audit process. More than 300 items were audited with timely rectification of inconsistencies and further strengthening of management. Labor disputes were timely addressed in accordance with the laws and regulations, effectively protecting the legal rights of the Company and the employees. During the Reporting Period, there were no violations of international or domestic standards, rules and regulations in relation to child and forced labor, or those of the countries and locations where our operations are located.

B5 Supply Chain Management

In addition to complying with the "Bidding Law of the People's Republic of China", the Group also formulated and implemented the internal the Company's "Administrative Measures on Procurement and Tendering" to improve the business procurement system and processes and developed quality suppliers. With standardized procurement methods and transparent operation process, it follows the principle of "standardized bidding (invitation) and sunlight procurement", ensuring open, fair and equitable procurement. Through a multi-dimensional supplier evaluation system, suppliers are assessed and assigned scores, which are included in the supplier database, to identify high-quality suppliers and exclude those with slow or no improvement. In selecting suppliers, full consideration is given to their performance in environmental protection, social responsibility and energy conservation. Meanwhile, the Group helps suppliers to improve the quality of their products and services, and fulfills its social responsibilities such as environmental protection, energy conservation and emission reduction together with upstream and downstream enterprises, creating value and fostering a win-win relationship with the suppliers. During the Reporting Period, the Group was not aware of any significant actual or negative impact from its major suppliers on business ethics, environmental protection, human rights and labor practices.

B6 **Product Responsibility**

With the ultimate goal of "improving customer satisfaction", the Group evaluates and improves itself in multiple respects according to Huawei's Supplier Development Plan (SD Plan). Through a continuous iteration of zero-distance innovation practice, it provides its customers with quality services and products by leveraging its services advantages in software capabilities. Meanwhile, it strengthens its customer privacy protection by adhering to the privacy protection principle of reasonableness, transparence, controllability and security, and building a systematic and standardized data security and privacy protection system. During the Reporting Period, the Group was honored with awards including "New Fortune Hong Kong Listed Company with the Best IR", the "Top 10 of 100 Chinese Software Companies 2019" and the "2019 Asian Corporate Management Team Rankings" of Institutional Investor by virtue of its high-quality services and outstanding technological innovation.

"Supporting major national strategic projects"

By leveraging the its mature cross-industry big data construction methodology, its business accumulation in the airport industry and its data modeling capabilities, the Group completed key constructions of the "Airport 3.0 - Smart Airport" in 2019, effectively supporting major strategic projects of the country. Despite of multiple technological and project management challenges, the Group completed the construction of the intelligent data center on schedule, setting a benchmark for airport digitization and data centers digitization in China as well as in the world.

"Building an AI software ecosystem to drive industrial transformation"

During the Reporting Period, Chinasoft International's JointForce entered into a strategic cooperation agreement with Xiao i Robot in relation to the construction of an open-source artificial intelligence platform, to jointly advance the companies' capabilities and industrial transformations. With this cooperation, JointForce will, together with Xiao i Robot, promote the development and sharing of artificial intelligence by establishing an artificial intelligence zone, in which JointForce can fully utilize the artificial intelligence technology to set up a platform for the provision of a series of intelligent services, including data maps for software industry, intelligent order distribution, computer-assisted bid selection and expert services. In addition, the requests of Xiao i Robot can interconnect with JointForce to access its quality service resources professional IT service capabilities, empowering the platform service providers to form an AI software ecological system. In 2019, the artificial intelligence zone jointly established by both parties was successfully launched and put into operation. It is going to help more customers in the industry to obtain high-quality artificial intelligence services in the most convenient way, thereby realizing the companies' capability upgrades and industrial transformation driven by the artificial intelligence.

"Business Continuity Management (BCM)"

The Group has always been aiming to provide customers with stable and quality products and services. Emergency plans and business continuity plans are formulated by establishing a simple and efficient BCM process flow system and management structure. Training for the whole staff and special drills are conducted to strengthen the Company's capabilities in risk prevention and business continuity, so that it can effectively respond to various emergencies or major disasters and ensure the continuity of critical businesses and services. To ensure the effective implementation of the BCM system, the Group has established from top to bottom the BCM management committee, emergency command center, on-site emergency response and recovery teams in different regions as well as BCM Teams in various business lines, and conducted emergency drills in office premises. During the Reporting Period, there was no major business interruption in regard to ensuring timely delivery of products/services to customers or its own operations.

"Launching of DT Innovation Workshop to challenge traditional thinking"

The Design Thinking (DT) workshop of Stanford University's d.school introduced by the Group continued to roll out effectively, both internally and externally. The DT team inspires innovation through the brand new DT experiential model, and guide the corporate customers to the path of creative mind transformation by way of DT's novel teaching methods including the classical brainstorming and cross-domain interactions. The DT innovation workshop is a method to address companies' practical problems. The unique form and new concept of experiential classes can activate the participants' potentials in innovative thinking and provide impetus in innovation for the improvement of management capabilities and successful transformation of companies. Through digital innovation under the new model, the Group, using the Innovation Workshop, has provided better quality services and created enhanced values for customers in various sectors, including banks, large insurance companies, large retail logistics companies and modern services providers.

"Improve intellectual property management and continue to encourage innovation"

The Group has been continuously improving its own intellectual property management system, by focusing on the protection of intellectual property rights. It has formulated the internal application and approval procedures in relation to the protection of intellectual property rights, by specifying work responsibilities and auditing scopes of each division in these procedures, and ensuring that intellectual property rights be reported in an effective, reasonable and compliant manner. The Group fosters an all-embracing innovation culture, establishes and effectively implements innovation processes, as well as nurtures and develops innovative talents and teams. All employees are encouraged to carry out innovative activities through Zero Distance Innovation 2.0. In 2019, the Zero Distance Innovation empowered more than 1,700 employees, with 81 applications for Zero Distance Innovation of which 59 received awards. During the Reporting Period, 264 of the Company's independent intellectual property rights received copyright certificates for computer software from the National Copyright Administration of China and 13 patents were in progress of application. The protection of intellectual property rights spans over 11 business divisions of the Company.

"Focus on privacy protection and information security"

In the process of providing products and services to customers, the Group strictly adheres to the provisions in relation to customer privacy protection and intellectual property rights in Chinasoft International Confidentiality System. To ensure the effective implementation of data and privacy protection requirements and the compliance with laws and regulations, the Group has established a matrix control mechanism and base line, and formulated detailed management measures and procedures, and consistently promoted the importance of personal data protection compliance to all employees. The Group has developed corresponding data privacy courses for key positions to ensure that each employee involved in personal data and privacy protection understand the principle of data protection accurately and strictly implement the Company's policies based on his/her specific functions and roles.

During the Reporting Period, the Group further improved the network and information security management system. It continued to invest in security management and technology, specifying the rules for classification and grading of customer data security incidents, the rules for monitoring and early warning, the rules for security inspection and evaluation, and the rules for reporting and assessment. Information security training was enhanced to raise the awareness of information security among all employees. Supervision and inspection was intensified while the accountability and punishment scheme was strengthened. The construction of technical means to address network and information security risks was strengthened. IT network and IT system security emergency plans were formulated and regular drills were conducted to timely address security breaches in IT networks and systems and ensure business continuity.

"Take initiatives to obtain feedback and improve customer satisfaction"

The Group promotes the project integration management system to all business lines. Service quality is ensured with a system that tracks the progress of projects and helps the persons-in-charge at all levels to understand and monitor projects in real time. VOC and NPS customer satisfaction surveys were carried out to identify the Group's deficiencies as compared with industry benchmarks and areas of improvement, customers' opinions were obtained at different levels and responses were timely and effectively returned to the customers, demonstrating improved quality and efficiency of service delivery.

During the Reporting Period, the Group was not imposed of any penalty by regulators as a result of breaching of the laws and regulations related to personal data and privacy protection, nor did it receive any complaint related to product quality.

B7 Anti-corruption

The Group has always been adhering to running business with integrity, abiding by laws and regulations and keeping in line with business ethics, holding a “zero tolerance” attitude towards bribery, corruption and other acts that cross its red line. It strictly complies with the Law Against Unfair Competition, and to ensure its compliant operation, it has specified in the Employee Handbook that employees’ are prohibited from giving or receiving briberies and the respective penalties. Employees, when joining the Group, are required to sign the Code of Business Conduct (BCG), Integrity Agreement and Integrity Undertakings as ways to restraint their behaviors. The Group also formulated management provisions on the breaching of BCG, violation of internal control requirements, and management regulations in respect of rewards and reporting. Rewards and penalties have been strengthened to ensure compliance by all employees. In addition, a company-level BCG reporting mail box, monitored real-time and managed by designated persons, has been set up to collect and handle various kinds of messages reporting any violation of the Group compliance requirements. These include, but not limited to, illegal and non-compliant behaviors such as bribery, corruption, fraud, disclosure of trade secrets, etc. Furthermore, in order to prevent commercial bribery in procurement, the Group has declared to all suppliers and partners that they should not work with Chinasoft International through any improper means. At the same time, a good faith clause and penalties for the breach of contract were added to the procurement contract, effectively eliminating bribery possibilities. During the Reporting Period, the Group was not aware of any significant violations by employees of relevant laws and regulations.

B8 Community Welfare

Since its establishment, the Group has always kept in mind its original intention to fully perform its corporate social responsibility and actively participating in social welfare activities. During the Reporting Period, the Group launched a campaign “Bring Hope to Children” together with Shaanxi Xinyu Charity Home (陝西心羽愛心家園). Volunteers, who were recruited within the Group, brought caring to the difficult families in need.

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

DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 57, is the Chairman and the Chief Executive Officer of the Company and is responsible for the overall business development of the Group. He has over 20 years of practicing experience in software information industry. Dr. Chen holds a doctorate degree in optics from Beijing Institute of Technology (北京理工大學) in 1991. Prior to joining the Company on 25 April 2000, Dr. Chen worked at China National Computer Software & Technology Service Corporation ("CS&S") from October 1996 to April 2000, subsequently was appointed as vice president in June 1999 and as senior vice president of CNTC (中軟網絡信息技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources Information Technology Services Limited. He was also a director of CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd., an associate company of CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd. (中國長城電腦軟體公司).

Dr. Tang Zhenming (唐振明), aged 57, is the senior vice president of the Company. He is responsible for the Group's training business. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Institute of Technology (北京理工大學) in 1994. Prior to joining the Company on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to July 1998 and by Chinasoft Cyber Information Technology Co., Ltd (Beijing) as deputy general manager from August 1998 to March 2003. Dr. Tang was also employed by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995.

Non-executive Directors

Dr. Zhang Yaqin (張亞勤), aged 54, was appointed on 31 December 2008. Dr. Zhang Ya-Qin was the President of Baidu, Inc. (listed on NASDAQ, NASDAQ: BIDU) from September 2014 to October 2019, in charge of autonomous and intelligent cloud emerging business and basic technology system and etc., and also the Chairman of Baidu R&D Centre in U.S. Prior to joining Baidu, Dr. Zhang served various positions at Microsoft Corporation (listed on NASDAQ, NASDAQ: MSFT) from January 1999 to September 2014, including: the corporate vice president of Microsoft Corporation, the chairman of Microsoft Asia-Pacific Research & Development Group responsible for driving Microsoft's overall research and development efforts in China and the Asia-Pacific region, the managing director and the chief scientist as well as an original founder of Microsoft Research Asia where he was in charge of Microsoft's mobile and embedded division in Microsoft's headquarters. Dr. Zhang is also a member of Committee 100, a group of leading Chinese- Americans to promote the political, science, social and economic exchanges between the US and China. Dr. Zhang honored academician of the American Academy of Arts and Science in 2019. Dr. Zhang was awarded a fellow of the Australian Academy of Technology and Engineering in December 2017, and he has also been a fellow of the Institute of Electrical and Electronics Engineers since March 1997. Dr. Zhang obtained his bachelor's degree in radio electronics and master's degree in telecommunication and electrical systems from the University of Science and Technology of China (中國科技大學) in July 1983 and January 1986 respectively. In February 1990, Dr. Zhang obtained his Ph.D. degree in electrical engineering from George Washington University, Washington D.C. Dr. Zhang has been an independent non-executive director of a number of companies, including AsiaInfo Technologies Limited (listed on the Stock Exchange, stock code: 1675) since August 2018 and Dr. Zhang has been an independent non-executive director of Fortescue Metals Group (ASX: FMG) since October 2019. Dr Zhang will join Tsinghua University as a chair Professor of Intelligent Science in July 2020.

Mr. Gao Liangyu (高良玉), aged 54, is the chairman of the board of Gao Zheng Asset Management Limited (高正資產管理有限公司) since July 2017. Mr. Gao was served as the chairman of the board of CSOP Asset Management Limited (南方東英資產管理有限公司) since March 2013, engaging in asset management business. Prior to joining CSOP Asset Management Limited, Mr. Gao was previously the deputy general manager at China Southern Fund Management Co., Ltd. (南方基金管理有限公司) in March 1998 and became the general manager of the same company from September 1998 to March 2013, responsible for the management and operation. Mr. Gao acted as the deputy division chief of the Public Offering Supervision Department of the China Securities Regulatory Commission (中國證券監督管理委員會) from March 1993 to March 1998, the section chief of the Finance Management Department of the People's Bank of China (中國人民銀行) from February 1991 to March 1993, studied in the Postgraduate Department of Financial Research Institute of the People's Bank of China from September 1988 to February 1991, and an officer of the Audits Department of Nanjing Agriculture University (南京農業大學) from July 1986 to August 1988. He served as an independent non-executive director of Jutal Offshore Oil Services Limited (巨濤海洋石油服務有限公司), a company listed on the Stock Exchange (stock code: 3303), from 2009 to 2015. Mr. Gao obtained his bachelor's degree in agricultural economics from Nanjing Agricultural University in July 1986.

Mrs. Gavriella Schuster, aged 54, has over the past 24 years managing and deploying a number of programs and products as well as licensing, pricing and go-to-market initiatives for Microsoft Corporation ("Microsoft"). She has consistently delivered high business growth through Microsoft's commercial segments, ranging from small business to global enterprise, leading sales and marketing teams across its Server and Cloud business, Windows Client Commercial business, Enterprise Services, licensing sales and marketing, field business development, training initiative development, segment marketing, worldwide partner marketing and training strategies, and worldwide operations. Mrs. Schuster has been the corporate vice president of Microsoft One Commercial Partner since June 2016. From May 2011 to May 2014, Mrs. Schuster was the general manager of US Cloud & Enterprise commercial business at Microsoft. From August 2006 to May 2011, Mrs. Schuster was the general manager of global product management of Windows Commercial business at Microsoft. From March 2001 to August 2006, Mrs. Schuster was a senior director of US enterprise licensing sales & marketing at Microsoft. From July 1999 to March 2001, Mrs. Schuster was a director of global Microsoft Enterprise Services at Microsoft. From February 1997 to July 1999, Mrs. Schuster was the group manager of global customer segment marketing at Microsoft. From May 1996 to February 1997, Mrs. Schuster was the group manager of global solution provider and training program for partners at Microsoft. From November 1995 to May 1996, Mrs. Schuster was the operations manager of Microsoft Partner Programs at Microsoft. Mrs. Schuster earned her bachelor's degree in Social Psychology from the University of Michigan in 1988.

Independent Non-executive Directors

Mr. Zeng Zhijie (曾之杰), aged 52, was appointed on 21 April 2003. Mr. Zeng is currently the founding Partner of Oriza-Rivertown Capital (元禾厚望成長基金) and the chairman of Shenzhen Hongtai Fund (深圳鴻泰基金). He has been active in the venture capital industry for twenty years. At present, Mr. Zeng serves as independent director and director for two listed companies: the independent director of Chinasoft International Limited (SEHK) and the director of CTS International Logistics Corp Ltd. (Shanghai Stock Exchange). Mr. Zeng obtained a bachelor's degree in economics from the University of Nagasaki, Japan, and a master of science degree in management from Stanford University.

Dr. Lai Guanrong (賴觀榮), aged 57, was appointed on 2 June 2015. Dr. Lai is currently the vice chairman of ABC Life Insurance Co., Ltd. (農銀人壽保險股份有限公司) since 2013. Dr Lai is also the independent director of Xin Yuan Enterprises Group Limited (信源企業集團有限公司) and is the chief economist of Shenzhen CMAF Management Co., Ltd (深圳市遠致富海投資管理有限公司) since 2018. Dr. Lai graduated from the School of Economics of Xiamen University in 1983 with a bachelor's degree, specialising in finance. He was awarded a master's degree by research by the Graduate School of the People's Bank of China (now known as the PBC School of Finance of Tsinghua University) in 1986. He was awarded a doctor's degree by research by the School of Economics of Xiamen University in 2001. He also took part in the 8-month special topic training "Dialogue between financial capital and technological innovation" organised by Tsinghua University in 2014. Dr. Lai was the secretary and deputy head of the office of the Fujian Province branch of the People's Bank of China. He led the establishment of the first securities company in Fujian and one of the first batch of securities companies in China, Minfa Securities Company Limited (閩發證券有限公司), and acted as the deputy general manager leading its work after the establishment of the company. He has led and successfully planned the merger and acquisition of listed companies, namely the merger of Xuji Electric (許繼電氣) (stock code: 000400SZ) with another listed company, Tianyu Electric (天宇電氣). In 1993, Dr. Lai led and successfully planned the listing of the earliest listed Fujian company, Fuyao Glass (福耀玻璃) (stock code: 600660SH); he also participated in the acquisition of Shenzhen Puruikang Biotechnology Co., Ltd (深圳市普瑞康生物技術有限公司). In 1996, Dr. Lai acted as the general manager of Fujian Min Qiao Trust Investment Company Limited (福建閩僑信託投資有限公司) and took over its management. After one year, Min Qiao Trust, which had been on the brink of bankruptcy, became the trust company with the highest gross profit and return on net assets ratio in the province. He has also been the president of Huafu Securities Company (華福證券公司), a provincial owned enterprise. When Dr. Lai was involved in the setting up of Jiahe Life Insurance Co., Ltd. (嘉禾人壽保險股份有限公司) and acted as its legal representative and president, he and the shareholders successfully introduced the Agricultural Bank of China as a controlling shareholder of Jiahe Life Insurance, together leading Jiahe Life Insurance into a new stage of development.

Professor Mo Lai Lan, aged 61, obtained her bachelor and Ph.D degrees in Accountancy from the Chinese University of Hong Kong and M.B.A. degree from Birmingham University in U.K. She is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Professor Mo joined City University of Hong Kong in 2011 as Professor of Accountancy and served as the Ph.D Program Coordinator for the Department of Accountancy during 2013-2015, and as Internship Coordinator from 2015 to 2017. She is now the Associate Director of the Research Centre for Sustainable Hong Kong (CSHK), a strategic applied research center established at City University of Hong Kong which aims at conducting impactful research in response to real-life sustainability challenges in Hong Kong and the Region. Previously, Professor Mo served as Professor and Head of the Department of Accountancy at Lingnan University from 2006 to 2011. She also had teaching and research experiences with other research universities. Prior to joining the academia, Professor Mo worked at an international leading CPA firm as a professional auditor and a listed company as an internal auditor. Professor Mo was a member of the Auditing & Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants from 2012 to 2017. Among other responsibilities, the Committee formulates auditing standards for listed companies in Hong Kong. Currently, she is a member of the Financial Reporting Council Review Committee, and a member of Board of Review (Inland Revenue Ordinance, Hong Kong) and a Specialist of Hong Kong Council for Accreditation of Academic & Vocational Qualifications (HKCAAVQ). Professor Mo's research focuses on audit quality, tax compliance and corporate governance. Many of her papers represent pioneer works on Accounting research published in leading international research journals. She also co-authored a book entitled "A Dream of the Red Chambers and Corporate Governance of Family Businesses"（紅樓夢與家族企業管治）and co-edited a book entitled "Transcending the Bottleneck – The Hong Kong Accountancy Profession"（突破瓶頸－香港會計業）. Professor Mo is currently an Associate Editor of the Asia-Pacific Journal of Accounting and Economics. She is also a member of the Editorial Board of AUDITING: A Journal of Practice & Theory and Journal of International Accounting Research which are leading research journals in Auditing and International Accounting respectively.

SENIOR MANAGEMENT

Mr. Simon Chung (鍾鎮銘), aged 59, is the global chief operating officer of the Company. He is responsible for the Company's strategic planning and overseas business development. He has over 20 years of experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom, finance and high-tech sectors. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. Prior to joining the Company, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005.

Mr. Simon Zhang (張崇濱), aged 57, is the senior vice president and chief human resources officer of the Company. He is responsible for the human resources management of the Company. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Company, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an) from 1997 to 1999. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino-US joint venture. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phoenix Medical Equipment Company.

Ms. Leong Leung Chai (梁良齊), Florence, aged 40, is the qualified accountant, company secretary and authorised representative of the Company and was appointed as the deputy chief financial officer of the Company in May 2017. She joined the Company in November 2005 to serve as the Financial Controller of the Group, and became the Company Secretary of the Company and an authorised representative since August 2013. Ms. Leong performs the duties of company secretary, and is responsible for the Group's regulatory compliance and financial management and reporting. Before joining the Company, Ms. Leong worked in an international audit firm for over 5 years where she was mainly responsible for financial auditing and internal control reporting. She has over 15 years' experience in financial auditing, listing compliance and corporate governance. Ms. Leong is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree (Hons) in Accountancy.

COMPANY SECRETARY

Ms. Leong Leung Chai, Florence (梁良齊) is the deputy chief financial officer, qualified accountant, company secretary and authorized representative of the Company. Please refer to the paragraph headed "Senior Management" in this section above for details regarding her background.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINASOFT INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Chinasoft International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 203, which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS - CONTINUED

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment	
We have identified goodwill impairment assessment as a key audit matter because determining the recoverable amount of relevant cash-generating units (or groups of cash-generating units) requires a significant degree of management judgement and may be subject to management bias. The determination of whether the carrying amount of goodwill is recoverable requires management to make significant estimates such as the discount rates, forecasts of future revenue growth rates and gross margins based on management's view of future business prospects. Details of goodwill and the corresponding key estimation uncertainty on its impairment assessment are disclosed in notes 16 and 4 to the consolidated financial statements, respectively.	Our procedures in relation to goodwill impairment assessment, performed on a sample basis, included: • Assessing the valuation methodology; • Challenging the appropriateness of the assumptions used, including specifically the revenue growth rates and gross margins used in the impairment testing model based on our knowledge on the business and industry; • Comparing the actual results with prior year's forecasts; • Performing an independent assessment of the discount rates used in the impairment testing model, including developing a range of independent estimates and comparing those to the discount rates selected by management, with the assistance of our fair value specialists; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

KEY AUDIT MATTERS - CONTINUED

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from project-based development contracts	
We have identified revenue recognition from project-based development contracts as a key audit matter because it is recognised over time based on the stage of completion which requires a significant degree of management judgement and may be subject to management bias. The stage of completion requires management to make significant estimates of the expected costs to complete the relevant performance obligations based on the budgets prepared for the contracts. Details of revenue from project-based development contracts and corresponding key estimation uncertainty on recognition are disclosed in notes 5 and 4 to the consolidated financial statements, respectively.	Our procedures in relation to revenue recognition from project-based development contracts, performed on a sample basis, included: • Challenging the appropriateness of the assumptions used in the estimation of total expected costs to complete the relevant performance obligations; • Assessing the reasonableness of changes if any on the expected future costs to complete the relevant performance obligations; • Assessing the stage of completion through obtaining management's calculations and agreeing the inputs of the costs to supporting evidence; • Testing the mathematical accuracy of management's calculation of revenue recognised over time; • Comparing the transaction prices to the consideration expected to be received based on current rights and obligations under the contracts and any modifications that were agreed upon with the customers; • Performing gross profit analysis; and • Inspecting the completion reports or other evidence for projects completed in the current year.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chiu Sze Kei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2020

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**12,041,895**	10,585,013
Cost of sales and services		**(8,458,802)**	(7,340,356)
Gross profit		**3,583,093**	3,244,657
Other income		**177,811**	64,078
Loss from derecognition of financial assets measured at amortised cost		**(4,544)**	(7,139)
Impairment losses under expected credit loss model, net of reversal	6	**(74,812)**	(35,200)
Impairment loss on goodwill		**(35,760)**	–
Other gains or losses		**849**	(5,669)
Selling and distribution costs		**(617,554)**	(495,524)
Administrative expenses		**(1,195,874)**	(1,091,148)
Research and development costs		**(808,949)**	(739,434)
Other expenses		**(58,929)**	(68,402)
Finance costs	7	**(166,045)**	(117,987)
Share of results of investments accounted for using the equity method		**(328)**	12,222
Profit before taxation		**798,958**	760,454
Income tax expense	8	**(42,272)**	(44,283)
Profit for the year	9	**756,686**	716,171

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTE	2019 RMB'000	2018 RMB'000
Other comprehensive expense			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		–	(13,834)
Item that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		(5,875)	19,383
Other comprehensive (expense) income for the year, net of tax		(5,875)	5,549
Total comprehensive income for the year		750,811	721,720
Profit for the year attributable to:			
Owners of the Company		754,888	715,803
Non-controlling interests		1,798	368
		756,686	716,171
Total comprehensive income attributable to:			
Owners of the Company		749,013	721,352
Non-controlling interests		1,798	368
		750,811	721,720
Earnings per share	12		
Basic		RMB0.3071	RMB0.2954
Diluted		RMB0.3005	RMB0.2789

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	13	**802,423**	837,634
Right-of-use assets	14	**278,646**	–
Intangible assets	15	**127,382**	148,172
Goodwill	16	**973,856**	1,006,337
Investments accounted for using the equity method	17	**227,607**	144,280
Equity instruments at fair value	18	**62,901**	51,508
Prepaid lease payments	19	**–**	37,003
Other receivables	21	**66,180**	29,935
Deferred tax assets	30	**8,075**	8,675
		2,547,070	2,263,544
Current assets			
Inventories	20	**54,421**	63,698
Trade and other receivables	21	**3,297,240**	2,585,247
Bills receivable	23	**4,443**	22,212
Contract assets	24	**2,228,494**	2,819,117
Prepaid lease payments	19	**–**	860
Amounts due from related companies	25	**75,126**	67,765
Pledged deposits	26	**12,861**	19,426
Bank balances and cash	26	**2,525,741**	2,646,375
		8,198,326	8,224,700
Current liabilities			
Trade and other payables	27	**1,229,223**	1,497,011
Bills payable	23	**22,051**	45,280
Lease liabilities	28	**125,668**	–
Contract liabilities	29	**138,815**	166,078
Amounts due to related companies	25	**3,101**	18,185
Dividend payable		**81**	81
Taxation payable		**83,808**	125,174
Convertible loan notes	31	**23,829**	198,263
Borrowings	32	**1,523,187**	1,675,646
		3,149,763	3,725,718
Net current assets		**5,048,563**	4,498,982
Total assets less current liabilities		**7,595,633**	6,762,526

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	30	**10,287**	11,062
Convertible loan notes	31	**727,672**	719,941
Lease liabilities	28	**123,734**	–
Borrowings	32	**200,000**	–
		1,061,693	731,003
		6,533,940	6,031,523
Capital and reserves			
Share capital	33	**116,325**	112,994
Share premium	34	**3,145,241**	2,982,319
Treasury shares	41	**(470,752)**	(76,451)
Reserves	34	**3,676,796**	2,948,128
Equity attributable to owners of the Company		**6,467,610**	5,966,990
Non-controlling interests		**66,330**	64,533
Total equity		**6,533,940**	6,031,523

The consolidated financial statements on pages 99 to 203 were approved and authorised for issue by the board of directors on 27 April 2020 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Dr. Tang Zhenming
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to the owners of the Company														
	Share capital RMB'000	Share premium RMB'000 (note 34)	Treasury shares RMB'000	Other reserves RMB'000 (note 34)	Fair value through other comprehensive income reserve RMB'000	Translation reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 34)	Statutory enterprise expansion fund RMB'000 (note 34)	Statutory surplus reserve fund RMB'000 (note 34)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	110,283	2,809,329	–	(122,769)	–	(31,474)	216,130	124,174	15,793	26,749	147,455	1,837,629	5,133,299	64,165	5,197,464
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	715,803	715,803	368	716,171
Other comprehensive (expense) income for the year	–	–	–	–	(13,834)	19,383	–	–	–	–	–	–	5,549	–	5,549
Total comprehensive (expense) income for the year	–	–	–	–	(13,834)	19,383	–	–	–	–	–	715,803	721,352	368	721,720
Issue of ordinary shares upon exercise of share options	1,661	141,332	–	–	–	–	(34,322)	–	–	–	–	–	108,671	–	108,671
Recognition of share option expenses	–	–	–	–	–	–	53,297	–	–	–	–	–	53,297	–	53,297
Conversion of convertible loan notes	1,050	68,533	–	–	–	–	–	(5,886)	–	–	–	–	63,697	–	63,697
Appropriations	–	–	–	–	–	–	–	–	–	–	33,514	(33,514)	–	–	–
Dividends paid to ordinary shareholders	–	(36,875)	–	–	–	–	–	–	–	–	–	–	(36,875)	–	(36,875)
Purchase of shares under share award scheme	–	–	(76,451)	–	–	–	–	–	–	–	–	–	(76,451)	–	(76,451)
At 31 December 2018	112,994	2,982,319	(76,451)	(122,769)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,969	2,519,918	5,966,990	64,533	6,031,523
Adjustments (See note 2)	–	–	–	–	–	–	–	–	–	–	–	(12,494)	(12,494)	(1)	(12,495)
At 1 January 2019 (restated)	112,994	2,982,319	(76,451)	(122,769)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,969	2,507,424	5,954,496	64,532	6,019,028
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	754,888	754,888	1,798	756,686
Other comprehensive expense for the year	–	–	–	–	–	(5,875)	–	–	–	–	–	–	(5,875)	–	(5,875)
Total comprehensive (expense) income for the year	–	–	–	–	–	(5,875)	–	–	–	–	–	754,888	749,013	1,798	750,811
Recognition of share option expenses	–	–	–	–	–	–	9,807	–	–	–	–	–	9,807	–	9,807
Expiry of share options	–	–	–	–	–	–	(48,025)	–	–	–	–	48,025	–	–	–
Conversion of convertible loan notes	3,331	211,043	–	–	–	–	–	(17,658)	–	–	–	–	196,716	–	196,716
Appropriations	–	–	–	–	–	–	–	–	–	–	50,487	(50,487)	–	–	–
Dividends paid to ordinary shareholders	–	(48,121)	–	–	–	–	–	–	–	–	–	–	(48,121)	–	(48,121)
Purchase of shares under share award scheme	–	–	(394,301)	–	–	–	–	–	–	–	–	–	(394,301)	–	(394,301)
At 31 December 2019	116,325	3,145,241	(470,752)	(122,769)	(13,834)	(17,966)	196,887	100,630	15,793	26,749	231,456	3,259,850	6,467,610	66,330	6,533,940

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Operating activities		
Profit before taxation	798,958	760,454
Adjustments for:		
Depreciation of property, plant and equipment	138,470	122,405
Depreciation of right-of-use assets	105,624	–
Amortisation of intangible assets and prepaid lease payment	58,929	69,262
Finance costs	166,045	117,987
Loss from derecognition of financial assets measured at amortised cost	4,544	7,139
Impairment losses under expected credit loss model, net of reversal	74,812	35,200
Impairment loss on goodwill	35,760	–
Share option expenses	9,807	53,297
Loss on fair value change of financial assets	4,711	–
Interest income	(28,893)	(12,175)
Share of results of investments accounted for using the equity method	328	(12,222)
Loss on disposal of property, plant and equipment	1,105	1,177
Dividends from equity investment	(6,882)	–
Exchange gains	(9,186)	(5,124)
Operating cash flows before movements in working capital	1,354,132	1,137,400
Increase in trade and other receivables	(803,271)	(690,259)
Decrease (increase) in contract assets	547,042	(241,349)
Decrease in trade and other payables	(231,411)	(39,458)
(Decrease) increase in contract liabilities	(27,263)	102,528
Decrease (increase) in bills receivable	17,769	(10,325)
Decrease (increase) in inventories	9,277	(37,674)
Increase in amounts due from related companies	(4,816)	(2,542)
(Decrease) increase in bills payable	(23,229)	24,807
Cash generated from operations	838,230	243,128
Income taxes paid	(128,154)	(111,983)
Income taxes refunded	44,393	30,090
Net cash generated from operating activities	754,469	161,235
Investing activities		
Purchases of property, plant and equipment	(104,691)	(150,506)
Placement of pledged deposits	(3,835)	(18,777)
Development costs paid	(37,573)	(37,124)
Purchase of other intangible assets	(566)	–
Purchase of investments accounted for using the equity method	(84,655)	–
Purchase of equity instrument at fair value	(15,000)	–
Repayment from related companies	5,009	16,965
Withdrawal of pledged deposits	10,400	9
Proceeds from disposal of subsidiaries in prior years	4,186	4,118
Interest received	27,442	12,175
Proceeds from disposal of property, plant and equipment	1,685	5,203
Dividend received from investments accounted for using equity method	1,000	1,125
Dividend received from equity instruments at fair value	6,882	–
Advance to related parties	(7,507)	–
Prepayment for purchase of an equity investment	(2,464)	–
Payments for deposits of acquisition of an office building	(16,320)	–
Payment for right-for-use assets	(1,725)	–
Payment for rental deposits	(6,486)	–
Net cash used in investing activities	(224,218)	(166,812)

	NOTE	2019 RMB'000	2018 RMB'000
Financing activities			
Dividend paid	43	**(48,121)**	(36,875)
New borrowings raised	43	**2,916,584**	3,275,798
Proceeds from exercise of share options		**–**	108,671
Purchases of shares under share award scheme		**(394,301)**	(76,451)
Advance from related companies		**2,056**	(40,966)
Repayment to related companies	43	**(17,187)**	–
Repayment of borrowings	43	**(2,864,948)**	(2,292,100)
Repayments of lease liabilities	43	**(117,935)**	–
Interest paid on convertible loan notes	43	**(16,329)**	(30,980)
Other interest paid	43	**(109,440)**	(54,120)
Net cash (used in) generated from financing activities		**(649,621)**	852,977
Net (decrease) increase in cash and cash equivalents		**(119,370)**	847,400
Cash and cash equivalents at beginning of the year		**2,646,375**	1,785,305
Effect of foreign exchange rate changes		**(1,264)**	13,670
Cash and cash equivalents at end of the year, represented by bank balances and cash		**2,525,741**	2,646,375

1. GENERAL INFORMATION OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2003. On 29 December 2008, the listing of the shares of the Company was transferred to the Main Board of the Stock Exchange. The addresses of the registered office and principal places of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement Contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

2.1 HKFRS 16 Leases – continued

As a lessee – continued

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 2.41% to 11.34%

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	365,556
Less: Lease contracts of which the commencement dates will be effective after 1 January 2019	(69,701)
	295,855
Lease liabilities discounted at relevant incremental borrowing rates	266,699
Less: Recognition exemption – short-term leases	(3,929)
Practical expedient – leases with lease term ending within 12 months from the date of initial application	(31,098)
Lease liabilities as at 1 January 2019	231,672
Analysed as	
Current	81,545
Non-current	150,127
	231,672

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

2.1 HKFRS 16 Leases – continued

As a lessee – continued

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		219,598
Reclassified from prepaid lease payments	(a)	37,863
Adjustments on rental deposits at 1 January 2019	(b)	2,969
		260,430

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

2.1 HKFRS 16 Leases – continued

As a lessee – continued

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current Assets				
Right-of-use assets		–	260,430	260,430
Prepaid lease payments	(a)	37,003	(37,003)	–
Other receivables				
– Rental deposits paid	(b)	17,910	(3,145)	14,765
Current Assets				
Trade and other receivables	(b)	2,585,247	(7,699)	2,577,548
Prepaid lease payments	(a)	860	(860)	–
Current Liabilities				
Trade and other payables	(c)	1,497,011	(7,454)	1,489,557
Lease liabilities		–	81,545	81,545
Non-current Liabilities				
Lease liabilities		–	150,127	150,127
Capital and Reserves				
Reserves		2,948,128	(12,494)	2,935,634
Non-controlling interest		64,533	(1)	64,532

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Note a: Payments for obtaining land use rights were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB37,863,000 were reclassified to right-of-use assets.

Note b: Before the application of HKFRS 16, the Group considered refundable rental deposits paid included in other receivables as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, the effect of discount amounting to RMB3,145,000 was reclassified from other receivables as at 1 January 2019, with corresponding amounts of RMB2,969,000 adjusted to right-of-use assets and RMB176,000 to accumulated profits.

Note c: The amount relates to accrued lease liabilities under trade and other payables as at 1 January 2019 and was adjusted to lease liabilities.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

2.1 HKFRS 16 Leases – continued

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 Definition of a Business

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

2.1 HKFRS 16 Leases – continued

New and amendments to HKFRSs in issue but not yet effective – continued

Amendments to HKFRS 3 Definition of a Business - continued

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based payment, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of consolidation – continued

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interest in subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity, and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations

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

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

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

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

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations – continued

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Goodwill – continued

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGUs within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interests in associates – continued

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal or partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers – continued

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers – continued

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (for example, service contracts in which the Group bills a fixed amount for each hour of service provided), the Group recognises revenue in the amount to which the Group has the right to invoice.

Generally, the Group measures the progress towards complete satisfaction of a performance obligation based on input method, which is to recognise revenue on the basis of the Group's inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Recognition of revenue from specific major source of revenue

The Group's revenue is principally earned from contracts for provision of solutions on project-based development services and outsourcing services, and to a lesser extent, other services and sales of goods. A small number of the contracts of the Group include multiple deliverables relating to one or more of its goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers – continued

Recognition of revenue from specific major source of revenue – continued

(a) *Project-based development services*

The provision of solutions on project-based development services includes a comprehensive set of activities in the contract, such as project design, implementation, installation, trial launch and/or acceptance, which are highly interdependent and interrelated. The directors of the Company have assessed that the Group's performance creates and enhances an asset that the customers control as the Group performs. Therefore, the directors of the Company have satisfied that there is only one single performance obligation and the services are satisfied over time. Accordingly, revenue from provision of solutions on project-based development contracts is recognised based on the stage of completion of the contracts which is determined as the proportion of the costs incurred for the work (i.e. subcontracting costs, material costs and direct staff costs incurred) performed to date relative to the estimated total costs to complete the satisfaction of these services, to the extent that the amount can be measured reliably and its recovery is considered probable.

(b) *Outsourcing services*

The provision of outsourcing services is billed based on the IT service hours provided and fixed hourly rates. The Group has a right to invoice in an amount that corresponds directly with the value of the Group's performance completed to date. The directors of the Company have assessed that outsourcing services represent one single performance obligation and the customers simultaneously receive and consume the benefits provided by the Group's performance as the Group performs. Therefore, the directors of the Company have satisfied that the services are satisfied over time.

Revenue from the provision of outsourcing services is recognised in an amount to which the Group has a right to invoice.

(c) *Other services*

Other services include corporate training, management, support and consulting services. The directors of the Company have assessed that other services represent one single performance obligation and the customers simultaneously receive and consume the benefits provided by the Group's performance as the Group performs. Therefore, the directors of the Company have satisfied that the services are satisfied over time.

(d) *Sales of goods*

Revenue from sales of third-party software and hardware products is recognised at a point in time when the customer obtains control of the products.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings, equipment and other assets that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) – continued

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) – continued

Lease liabilities – continued

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) – continued

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

Definition of a lease (prior to 1 January 2019)

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – continued

Leasehold land and building – continued

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

Buildings under construction for future owner-occupied purpose

When buildings are in the course of construction for production or for administrative purposes, they are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets – continued

Internally-generated intangible assets – research and development expenditure – continued

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Prepaid lease payments (before application of HKFRS 16)

Prepaid lease payments mainly represent payments for obtaining land use rights. Payment for obtaining land use rights is charged to profit or loss on a straight line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment losses on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment losses on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) – continued

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGU, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an assets is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets – continued

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) *Equity instruments designated as at FVTOCI*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets – continued

(iii) Financial assets as at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other gains or losses" line item.

Impairment of financial assets and contract assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, bills receivable, other receivables, and amounts due from related parties, bank balances and cash and pledged deposits) and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognise lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors and contract assets with significant balances and collectively for the remaining balances of debtors and contract assets using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12 month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets and contract assets subject to impairment assessment under HKFRS 9 – continued

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). This definition of default is selected as it is consistent with the Group's internal credit risk management purposes that cover both quantitative and qualitative information.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets and contract assets subject to impairment assessment under HKFRS 9 – continued

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets and contract assets subject to impairment assessment under HKFRS 9 – continued

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, bills receivable, other receivables, amounts due from related parties and contract assets where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in FVTOCI reserve is not reclassified to profit or loss, and will continue to be held in the FVTOCI reserve.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity – continued

Equity instruments – continued

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

When the shares of Company are purchased and held under the Company's share award scheme, the consideration paid by the Company, including any directly attributable incremental costs, is deducted from equity as treasury shares until the shares are cancelled or reissued. When such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

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

Convertible loan notes

The component parts of the convertible loan notes are classified separately as financial liability and equity in accordance with substance of the contractual arrangements and definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, the fair value of the liability component is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity – continued

Convertible loan notes – continued

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

Derecognition of financial liabilities

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Retirement benefits costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employee (such as wages and salaries) after deducting any amount already paid.

Equity-settled share-based payment transactions

Share options and share awards granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration of all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (equity-settled share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity-settled share-based payment reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in equity-settled share-based payment reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in equity-settled share-based payment reserve will be transferred to accumulated profits.

When the awarded shares under the Company's share award scheme are vested, the amount previously recognised in equity-settled share-based payment reserve and the amount of the relevant treasury shares are reversed and the difference arising from the reversal is adjusted to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity-settled share-based payment transactions – continued

Share options granted to suppliers

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying for the Group's accounting policies and that have been the most significant effect on the amounts recognised in the consolidated financial statements.

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to offices. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Leases are considered no longer enforceable when the Group as the lessee and the relevant lessors both have the right to terminate the lease without permission from the other party with no more than an insignificant contractual penalty.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Critical judgements in applying accounting policies - continued

Determination on lease term of contracts with renewal options - continued

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by Group;
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs);

Judgements in determining the performance obligations

In making their judgments, the directors of the Company consider the detailed criteria for recognition of revenue set out in HKFRS 15. In determining performance obligations, the directors of the Company consider whether the customer benefits from each service on its own and whether it is distinct in the context of the contract. When concluding a contract has one single performance obligation, the directors of the Company consider that the individual activities, if any, in the contract are highly interdependent and interrelated. When concluding a contract has multiple performance obligations, the directors of the Company consider that the individual performance obligation is regularly satisfied separately and the service is separately identifiable from other promises within the contract.

Note 3 describes the revenue recognition basis to each of the Group's major sources of revenue. The recognition of each of the Group's major sources of revenue requires judgement by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of the Company consider the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of the transaction as stipulated in the contracts entered into with its customers.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs (or groups of CGUs) to which goodwill has been allocated, and such estimation of the recoverable amount requires management to make significant estimates such as the discount rates, forecasts of revenue growth rates and gross margins based on management's view of future business prospects. The recoverable amount determination of the CGUs (or groups of CGUs) as at 31 December 2019 is based on the present value calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs (or groups of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2019, impairment loss of RMB35,760,000 was recognised by the Group (2018: nil). As at 31 December 2019, the carrying amount of goodwill is RMB973,856,000 (2018: RMB1,006,337,000). Details of the recoverable amount calculation are disclosed in note 16.

Project-based development contracts

Revenue from project-based development contracts is recognised based on the stage of completion of the contract using input method which requires estimations made by management. Management estimates the expected total costs to complete the relevant performance obligations based on the budgets prepared for the contracts. Because of the nature of the activities, management reviews and revises the estimates of such expected costs in the budget prepared for each contract as the contract progresses. Any revisions to estimates of the expected costs would affect contract revenue recognition.

Provision of ECL for trade receivables and contract assets

The Group uses provision matrix to calculate ECL for certain trade receivables and contract assets that it assesses collectively. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL, the Group's trade receivables and contract assets are disclosed in notes 36, 21 and 24 respectively.

5. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	2019 RMB'000	2018 RMB'000
Nature of goods and services		
Provision of services		
Project-based development services	**3,934,208**	5,070,766
Outsourcing services	**7,682,924**	5,227,798
Others	**19,598**	40,448
	11,636,730	10,339,012
Sales of software and hardware products	**405,165**	246,001
	12,041,895	10,585,013

	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
Over time	**11,636,730**	10,339,012
At a point in time	**405,165**	246,001
	12,041,895	10,585,013

Performance obligations of rendering project-based development services, outsourcing services and other services are satisfied over time. Performance obligations of sales of goods are satisfied at a point in time. Further information about the revenue recognition basis of the Group's goods and services is set out in note 3.

The Group's contracts for project-based development services typically include payment schedules which require stage payments over the service period once certain specific milestones are reached.

The Group's outsourcing contracts include fixed hourly fee rates, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a regular basis and consideration is payable generally one month after the invoice date.

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Disaggregation of revenue from contracts with customers - continued

The period between payment and transfer of the associated goods or services of the Group is typically less than one year. As such, the Group applies the practical expedient under HKFRS 15 of not adjusting the transaction prices of the contracts for the effects of any significant financing component.

In respect of contracts for project-based development services, the transaction price allocated to performance obligations that were unsatisfied or partially unsatisfied in relation to the contract liabilities amounts to RMB138,815,000 as at 31 December 2019 (31 December 2018: RMB166,078,000). Such transaction price allocated is expected to be recognised as revenue during 2020.

In respect of contracts for outsourcing services, other services and sales of goods, the Group applies the practical expedients under HKFRS 15 and does not disclose information about the transaction prices allocated to the remaining performance obligations. The practice expedients cover circumstances where the original expected duration of the contracts is one year or less, and circumstances where the Group has a right to invoice in an amount that corresponds directly with the value of the Group's performance completed to date.

Segment revenue and results

Information reported to the chief executive officer of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the category of customers by the Group's operating divisions.

The Group's operating and reportable segments are as follows:

1. Technical professional services group ("TPG") - development, provision of solutions, IT outsourcing services for banks and other financial institutions, telecommunication carriers and other large-scale multinational companies, including sale of products

2. Internet IT services group ("IIG") - development, provision of solutions and IT outsourcing services for government, tobacco industry and other small-scaled companies and training business, including sale of products

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment revenue and results - continued

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

	Segment revenue		Segment results	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
TPG	**10,458,258**	9,174,855	**891,035**	795,281
IIG	**1,583,637**	1,410,158	**97,645**	133,064
	12,041,895	10,585,013	**988,680**	928,345

Segment revenue reported above represents revenue generated from external customers after eliminating inter-segment services revenue of RMB460,285,000 in 2019 (2018: RMB269,597,000). Inter-segment services are charged at a cost plus margin basis.

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

Segment results represent the profit earned by each segment without allocation of impairment loss on goodwill, corporate expenses, share option expenses, interest on convertible loan notes and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Reconciliation of segment results to profit before taxation:

	2019	2018
	RMB'000	RMB'000
Segment results	**988,680**	928,345
Other income, gains and losses unallocated	**11,438**	4,360
Impairment loss on goodwill	**(35,760)**	–
Interest on convertible loan notes	**(46,342)**	(59,236)
Corporate expenses	**(109,251)**	(59,718)
Share option expenses	**(9,807)**	(53,297)
Profit before taxation	**798,958**	760,454

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and assessment of segment performance. Therefore, only segment revenue and segment results are presented.

Geographical information

The Group's operations are mainly located in its country of domicile, the People's Republic of China ("PRC"), and to a lesser extent, the United States of America ("USA"), Japan, Malaysia, India and other countries.

The Group's revenues from external customers (based on location of the operations) by geographical location are detailed below:

	Revenue from external customers	
	2019	2018
	RMB'000	RMB'000
PRC	**11,451,930**	10,036,162
USA	**449,620**	403,289
Japan	**85,756**	74,554
Malaysia	**26,813**	44,848
India	**27,464**	26,151
Others	**312**	9
	12,041,895	10,585,013

Information about products and services

	2019	2018
	RMB'000	RMB'000
Sales of software and hardware products	**405,165**	246,001
Provision of services		
TPG	**10,274,776**	9,022,237
IIG	**1,361,954**	1,316,775
	11,636,730	10,339,012
	12,041,895	10,585,013

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Information about major customers

Information about revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group:

	2019 RMB'000	2018 RMB'000
Customer A	**6,576,013**	5,620,045

No other single customers contributed 10% or more to the Group's revenue for both 2019 and 2018.

Other segment information

2019	IIG RMB'000	TPG RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	**99,715**	**201,688**	**1,620**	**303,023**
Loss from derecognition of financial assets measured at amortised cost	**–**	**4,544**	**–**	**4,544**
Finance costs	**19,081**	**100,573**	**46,391**	**166,045**
Impairment losses, under expected credit loss model, net of reversal	**61,662**	**12,003**	**1,147**	**74,812**
Interest income from pledged deposits and bank balances	**2,201**	**25,776**	**916**	**28,893**
Share of loss of investments accounted for using the equity method	**24**	**304**	**–**	**328**
Loss on disposal of property, plant and equipment	**597**	**508**	**–**	**1,105**

2018	IIG RMB'000	TPG RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	63,312	127,685	670	191,667
Loss from derecognition of financial assets measured at amortised cost	–	7,139	–	7,139
Finance costs	9,087	49,664	59,236	117,987
Impairment losses, under expected credit loss model, net of reversal	10,788	25,228	(816)	35,200
Interest income from pledged deposits and bank balances	1,854	9,792	529	12,175
Share of profit (loss) of investments accounted for using the equity method	14,163	(1,941)	–	12,222
Loss on disposal of property, plant and equipment	160	1,017	–	1,177

6. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 RMB'000	2018 RMB'000
Impairment losses recognised (reversed) on:		
– Trade receivables	15,785	35,454
– Contract assets	43,581	2,230
– Others	15,446	(2,484)
	74,812	35,200

Details of impairment assessment for the year ended 31 December 2019 are set out in note 36.

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on borrowings	105,345	58,751
Interest on lease liabilities	14,358	–
Effective interest on convertible loan notes	46,342	59,236
	166,045	117,987

8. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	55,102	75,990
– over-provision in prior years	(15,217)	(30,090)
	39,885	45,900
Japan Corporate Income Tax	886	1,078
Others	1,624	3,564
	42,395	50,542
Deferred tax (note 30)	(123)	(6,259)
	42,272	44,283

8. INCOME TAX EXPENSE – CONTINUED

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

According to the Notice of the Ministry of Industry and Information Technology, the Ministry of Finance, the State Taxation Administration and National Development Reform Commission on Relevant Issues Concerning the Preferential Policies on Enterprise Income Tax of Software and Integrated Circuit Industry ("Cai Shui 2016 No. 49") and the Notice of the Ministry of Finance and the State Taxation Administration on Further Encouraging the Development of Enterprise Income Tax Policies for the Software Industry and Integrated Circuit Industry ("Cai Shui 2012 No. 27"), Chinasoft International Information Technology Limited ("Chinasoft Beijing") and Chinasoft International Shanghai Huateng Software Systems Co., Ltd ("Shanghai Huateng") qualified as key software enterprises and were entitled to a preferential income tax rate of 10% for the years ended 31 December 2019 and 2018.

According to Cai Shui 2016 No. 49 and Cai Shui 2012 No. 27, Chinasoft International Technology Services Limited ("CSITS") was entitled to a preferential income tax rate of 10% for the year ended 31 December 2018. According to the Notice of the State Administration of Taxation on the Implementation of the Opinions on the Implementation of Tax Policies Concerning the Western Development Program ("Cai Shui 2011 No. 58"), CSITS was entitled to a preferential rate of 15% for the year ended 31 December 2019.

According to the policies promulgated by the Ministry of Finance of the PRC and the State Taxation Administration for the Integrated Circuit Design and Software Enterprises in 2011, all eligible software enterprises that were profit-making up to the year ended 31 December 2017 were subsequently entitled to two-year EIT exemptions followed by three years' 50% EIT reduction of the statutory EIT rates, starting from their subsequent first profit making year. Chinasoft International Technology Service (Shenzhen) Limited ("CSITS SZ") qualified as a software enterprise and was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2018. As a result, CSITS SZ was entitled to tax exemptions for the years ended 31 December 2019 and 2018.

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

8. INCOME TAX EXPENSE – CONTINUED

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	798,958	760,454
Tax at PRC Enterprise Income Tax rate of 25% (2018: 25%)	199,740	190,114
Tax effect of share of results of interests in entities measured under equity method	82	(3,056)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	(163,356)	(114,988)
Tax effect of 175% (2018: 150%) deduction rate on certain research and development expenses	(62,187)	(61,555)
Tax effect of expenses not deductible for tax purpose	32,486	61,257
Over-provision in prior years	(15,217)	(30,090)
Tax effect of utilisation of tax losses previously not recognised	(720)	(804)
Tax effect of tax losses not recognised	51,995	5,447
Effect of different tax rates of subsidiaries	(551)	(2,042)
Income tax expense for the year	42,272	44,283

9. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 10)	**31,024**	12,053
Retirement benefits costs (excluding those for directors)	**408,732**	403,172
Share option expenses (excluding those for directors)	**9,304**	52,797
Other staff costs	**8,393,634**	7,889,516
Total staff costs	**8,842,694**	8,357,538
Less: Staff costs capitalised as development costs	**(37,573)**	(37,124)
	8,805,121	8,320,414
Research and development costs expensed	**808,949**	739,434
Depreciation of property, plant and equipment	**138,470**	122,405
Depreciation of right-of-use assets	**105,624**	–
Amortisation of intangible assets	**58,929**	68,402
Amortisation of prepaid lease payments	**–**	860
	303,023	191,667
Auditor's remuneration	**7,780**	7,200
Cost of inventories recognised as an expense	**321,531**	194,921
Minimum lease payments in respect of buildings	**–**	241,619
Net foreign exchange gain (included in other gains and losses)	**(9,186)**	(5,124)
Fair value loss on equity investment (included in other gains and losses)	**4,711**	–
Loss on disposal of property, plant and equipment	**1,105**	1,177
Interest income from pledged deposits and bank balances	**(28,893)**	(12,175)
Government grants	**(73,420)**	(41,929)
Additional value added tax super credit	**(35,226)**	–
Value added tax refund	**(506)**	(1,505)

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

Details of emoluments to the directors and the chief executive for the year ended 31 December 2019 are as follows:

	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Total RMB'000
(A) EXECUTIVE DIRECTORS			
Other emoluments:			
Salaries and other benefits	16,726	12,350	29,076
Retirement benefits costs	50	50	100
Sub-total	16,776	12,400	29,176

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. Chen Yuhong also acted as the chief executive officer of the Company.

	Zhang Yaqin RMB'000	Gao Liangyu RMB'000	Gavriella Schuster RMB'000 (Note a)	Total RMB'000
(B) NON-EXECUTIVE DIRECTORS				
Other emoluments:				
Salaries and other benefits	264	264	183	711
Share-based payments	–	–	503	503
Sub-total	264	264	686	1,214

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – CONTINUED

Directors' and chief executive's emoluments – continued

The non-executive directors' emolument shown above were mainly for their services as directors of the Company.

	Zeng Zhijie RMB'000	Lai Guanrong RMB'000	Mo Lai Lan RMB'000 (Note b)	Total RMB'000
(C) INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	106	264	264	634
Sub-total	106	264	264	634

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

	RMB'000
Total emoluments for 2019	31,024

Details of emoluments to the directors and the chief executive for the year ended 31 December 2018 are as follows:

	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Total RMB'000
(A) EXECUTIVE DIRECTORS			
Other emoluments:			
Salaries and other benefits	7,966	2,105	10,071
Retirement benefits costs	55	55	110
Sub-total	8,021	2,160	10,181

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. Chen Yuhong also acted as the chief executive officer of the Company.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – CONTINUED

Directors' and chief executive's emoluments – continued

	Zhang Yaqin	**Gao Liangyu**	**Gavriella Schuster**	**Samuel Thomas Goodner**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	(Note c)	
(B) NON-EXECUTIVE DIRECTORS					
Other emoluments:					
Salaries and other benefits	254	190	–	374	818
Share-based payments	–	–	500	–	500
Sub-total	254	190	500	374	1,318

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

	Zeng Zhijie	**Lai Guanrong**	**Mo Lai Lan**	**Leung Wing Yin Patrick**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note b)	(Note d)	
(C) INDEPENDENT NON-EXECUTIVE DIRECTORS					
Fees	102	254	96	102	554
Sub-total	102	254	96	102	554

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

	RMB'000
Total emoluments for 2018	12,053

Note a: Gavriella Schuster was appointed as a non-executive director of the Company on 20 September 2018.

Note b: Mo Lai Lan was appointed as an independent non-executive director of the Company on 15 August 2018.

Note c: Samuel Thomas Goodner was retired as a non-executive director of the Company on 18 May 2018.

Note d: Leung Wing Yin Patrick was retired as an independent non-executive director of the Company on 18 May 2018.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – CONTINUED

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2018: one) were directors of the Company whose emoluments were included above. The emoluments of the three (2018: four) highest paid individuals were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	50,273	22,604
Retirement benefits costs	149	166
Share option expenses	1,138	12,873
	51,560	35,643

The number of the highest paid employees, who are not the directors of the Company, whose remuneration fell within the following bands is as follows:

	No. of employees 2019	 2018
Hong Kong Dollar ("HK$") HK$7,500,001 to HK$8,000,000	–	1
HK$9,000,001 to HK$9,500,000	–	1
HK$12,000,001 to HK$12,500,000	–	1
HK$12,500,001 to HK$13,000,000	–	1
HK$14,500,001 to HK$15,000,000	1	–
HK$18,500,001 to HK$19,000,000	1	–
HK$25,000,001 to HK$25,500,000	1	–
	3	4

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

None of the directors waived any emoluments during both years.

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends for ordinary shares of the Company recognised as distribution during the year:		
2018 Final – HK2.15 cents (2017: HK1.8 cents) per share	48,121	36,875

Subsequent to the end of the reporting period, a final dividend in respect of year ended 31 December 2019 of HK2.19 cents (2018: HK2.15 cents) per ordinary shares has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	754,888	715,803
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	46,342	59,236
Earnings for the purpose of diluted earnings per share	801,230	775,039

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,458,500	2,423,085
Effect of dilutive potential ordinary shares:		
Share options	14,149	89,429
Convertible loan notes	193,676	266,115
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,666,325	2,778,629

The number of shares adopted in the calculation of the basic earnings per share has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme (see note 41).

12. EARNINGS PER SHARE – CONTINUED

The computation of diluted earnings per share for the year ended 31 December 2019 did not assume the exercise of the Company's share options granted on 28 September 2018 and 21 September 2017 since the exercise prices of those share options were higher than the average market price of shares of the Company.

The computation of diluted earnings per share for the year ended 31 December 2018 did not assume the exercise of the Company's share options granted on 28 September 2018 since the exercise prices of those share options were higher than the average market price of shares of the Company.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2018	612,843	391,572	15,240	10,165	226,037	1,255,857
Exchange adjustments	–	1,471	10	–	41	1,522
Additions	1,121	68,081	921	12,901	30,474	113,498
Transfers				(14,768)	14,768	–
Disposals	–	(18,530)	(2,098)	–	–	(20,628)
At 31 December 2018	613,964	442,594	14,073	8,298	271,320	1,350,249
Exchange adjustments	3	443	–	(1)	62	507
Additions	9,668	37,621	179	16,501	41,845	105,814
Transfers	3,065	22	–	(16,461)	13,374	–
Disposals	–	(28,357)	(61)	–	–	(28,418)
At 31 December 2019	626,700	452,323	14,191	8,337	326,601	1,428,152
DEPRECIATION						
At 1 January 2018	18,155	229,035	11,277	–	144,871	403,338
Exchange adjustments	–	1,076	7	–	37	1,120
Provided for the year	15,803	57,480	700	–	48,422	122,405
Eliminated on disposals	–	(12,554)	(1,694)	–	–	(14,248)
At 31 December 2018	33,958	275,037	10,290	–	193,330	512,615
Exchange adjustments	1	359	–	–	38	398
Provided for the year	15,405	60,628	722	–	61,715	138,470
Eliminated on disposals	–	(25,693)	(61)	–	–	(25,754)
At 31 December 2019	49,364	310,331	10,951	–	255,083	625,729
CARRYING VALUE						
At 31 December 2019	577,336	141,992	3,240	8,337	71,518	802,423
At 31 December 2018	580,006	167,557	3,783	8,298	77,990	837,634

13. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	2% – $3^1/_3$%
Furniture, fixtures and equipment	9% – $33^1/_3$%
Motor vehicles	9% – 20%
Leasehold improvements	Over the relevant lease terms or 19% – $33^1/_3$%, whichever is the lower

At 31 December 2019, the Group is in the process of obtaining the property certificate for the buildings with a carrying amount of RMB562,634,000 (2018: RMB575,577,000) which are located in the PRC.

14. RIGHT-OF-USE ASSETS

	Leasehold land	Leased properties	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2019	37,863	222,567	260,430
Additions	–	127,485	127,485
Depreciation charge	(860)	(104,764)	(105,624)
Disposal	–	(4,106)	(4,106)
Exchange adjustment	–	461	461
As at 31 December 2019	37,003	241,643	278,646
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			52,016
Total cash outflow for leases			178,162

The Group leases various offices for its operations. Lease contracts are entered into for fixed term of 1 months to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for offices for its operations. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

The Group has obtained the land use right certificate for the leasehold land which is located in the PRC. The leasehold land is depreciated on a straight line basis over a lease term of 50 years.

15. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000 (Note i)	Software RMB'000	Contract-based customer-related intangibles RMB'000 (Note i)	Technical expertise RMB'000 (Note i)	Customer relationship RMB'000 (Note ii)	Patent RMB'000	Trade name RMB'000 (Note i)	Technology RMB'000 (Note i)	Non-compete agreements RMB'000 (Note i)	Total RMB'000
COST											
At 1 January 2018	391,318	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	762,317
Additions	37,124	–	–	–	–	–	–	–	–	–	37,124
At 31 December 2018	428,442	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	799,441
Additions	37,573	–	566	–	–	–	–	–	–	–	38,139
At 31 December 2019	466,015	17,367	27,719	19,704	12,494	243,924	13,764	1,010	23,344	12,239	837,580
AMORTISATION/IMPAIRMENT											
At 1 January 2018	256,245	17,367	27,153	19,704	12,494	205,487	9,961	992	21,674	11,790	582,867
Provided for the year	51,514	–	–	–	–	13,456	1,305	8	1,670	449	68,402
At 31 December 2018	307,759	17,367	27,153	19,704	12,494	218,943	11,266	1,000	23,344	12,239	651,269
Provided for the year	47,745	–	37	–	–	9,832	1,305	10	–	–	58,929
At 31 December 2019	355,504	17,367	27,190	19,704	12,494	228,775	12,571	1,010	23,344	12,239	710,198
CARRYING VALUE											
At 31 December 2019	110,511	–	529	–	–	15,149	1,193	–	–	–	127,382
At 31 December 2018	120,683	–	–	–	–	24,981	2,498	10	–	–	148,172

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

Notes:

i. Technical knowhow, contract-based customer-related intangibles, technical expertise, trade name, technology and non-compete agreements are fully amortised intangible assets and still in use by the Group.

ii. Part of the customer relationship is fully amortised while the customer relationship still exists.

15. INTANGIBLE ASSETS – CONTINUED

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

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

16. GOODWILL

	RMB'000
COST	
At 1 January 2018	1,192,867
Exchange adjustments	9,548
At 31 December 2018	1,202,415
Exchange adjustments	3,279
At 31 December 2019	1,205,694
IMPAIRMENT	
At 1 January 2018 and 31 December 2018	196,078
Impairment loss recognised in the year	35,760
At 31 December 2019	231,838
CARRYING VALUE	
At 31 December 2019	973,856
At 31 December 2018	1,006,337

16. GOODWILL – CONTINUED

Impairment testing on goodwill

For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2019 and 2018 has been allocated to the following CGUs and groups of CGUs:

	2019 RMB'000	2018 RMB'000
Chinasoft Beijing	66,500	66,500
Shanghai Huateng	134,188	134,188
CSITS and related business	605,628	605,628
Catapult Systems, LLC ("Catapult")	166,710	199,191
Computer Training Center of CS&S ("Training Center")	830	830
	973,856	1,006,337

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

CGUs/groups of CGUs	Pre-tax discount rate		Growth rate	
	2019	2018	2019	2018
Chinasoft Beijing	15%	15%	3%	3%
Shanghai Huateng	14%	14%	3%	3%
CSITS and related business	16%	16%	3%	3%
Catapult	17%	19%	3%	3%
Training Center	17%	17%	3%	3%

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these CGUs/groups of CGUs, other than Catapult, to exceed their aggregate recoverable amount.

16. GOODWILL – CONTINUED

Impairment loss recognised

Catapult runs a business operation in the USA engaged in the provision of traditional IT services to a stable portfolio of customers with a moderate but limited growth in revenue. The CGU is in the progress of transformation that takes longer time than expected to develop new cloud related service offerings and enhanced customer base. Based on the impairment assessment on the CGU in 2019, an impairment loss on goodwill amounting to RMB35,760,000 was recognised under the unsatisfactory financial performance and current outlook. The pre-tax discount rate used in the current estimate of recoverable amount reflects a decline in specific risk associated with the CGU operating in the USA. No other write-down of the assets of the CGU is considered necessary.

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2019 **RMB'000**	2018 RMB'000
Cost of unlisted investments	**180,281**	95,626
Share of post-acquisition profits, net of dividend received	**47,326**	48,654
	227,607	144,280

The Group's investments accounted for using the equity method include investments in entities and investment funds operating in the PRC. In the opinion of the directors of the Company, none of the individual investments accounted for using equity method materially affected the results or net assets of the Group.

Aggregate information of investments accounted for using the equity method that are not individually material:

	2019 **RMB'000**	2018 RMB'000
The Group's share of (loss) profit and total comprehensive income for the year	**(328)**	12,222
Aggregate carrying amount of the Group's interests in these investments	**227,607**	144,280

18. EQUITY INSTRUMENTS AT FAIR VALUE

	2019 RMB'000	2018 RMB'000
Unlisted equity investments	**62,901**	51,508

On 23 January 2014, the Group entered into a partnership agreement with PointGuard Management I, L.P. ("PointGuard Management") and other co-investment partners. Under the partnership agreement, the Group agreed to make a total amount of capital commitment of United States Dollars ("US$")10,000,000 to PointGuard Ventures I, L.P. ("PointGuard Ventures"), a Cayman Islands exempted limited partnership engaged in venture capital investments in equity or equity-oriented securities of private and public companies with an emphasis on technology convergence companies. Pursuant to the partnership agreement, PointGuard Management has the sole and exclusive right to manage, control, and conduct the affairs of PointGuard Ventures and to do any and all acts on behalf of it. The directors of the Company consider that the Group cannot exercise control nor significant influence on PointGuard Ventures. As at 31 December 2019, the capital contributions made by the Group in PointGuard Ventures amounted to US$10,000,000 (2018: US$10,000,000) which represents a 13.29% (2018: 13.29%) share of interest.

In 2019, the Group entered into a partnership agreement with other eight co-investment partners to establish Nanjing Turing Ventures I, L.P. ("Turing Ventures"). Under the partnership agreement, as amended by a supplemental agreement on 6 March 2019, the Group agreed to make a total amount of capital contributions of RMB20,000,000 to Turing Ventures, which represents a 7.47% share of interest. Turing Ventures was established on 13 March 2019 as a PRC limited partnership engaged in venture capital investments in equity or equity-oriented securities of private and public companies with an emphasis on artificial intelligence companies. Pursuant to the partnership agreement, the general partner of Turing Ventures has the sole and exclusive right to manage, control, and conduct the affairs of Turing Ventures and to do any and all acts on behalf of it. The directors of the Company consider that the Group cannot exercise control nor significant influence on Turing Ventures. As at 31 December 2019, the capital contributions made by the Group in Turing Ventures amounted to RMB15,000,000.

19. PREPAID LEASE PAYMENTS

	2018 Land use right RMB'000
Analysed for reporting purposes as:	
Non-current assets	37,003
Current assets	860
	37,863

In 2018, the Group's prepaid lease payments comprise payments associated with a land use right of RMB37,863,000 in the PRC. Upon application of HKFRS 16, the prepaid lease payments was reclassified to right-of-use assets.

The land use right is amortised on a straight-line basis over a lease term of 50 years.

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Computer hardware, equipment and software products	**54,421**	63,698

21. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables, net of allowance	**2,978,781**	2,139,753
Advances to suppliers	**145,319**	193,787
Deposits, prepayments and other receivables, net of allowance	**239,320**	281,642
	3,363,420	2,615,182
Analysed for reporting purposes as:		
Non-current assets	**66,180**	29,935
Current assets	**3,297,240**	2,585,247
	3,363,420	2,615,182

As at 1 January 2018, trade and other receivables amounted to RMB1,935,322,000.

Included in the non-current assets are rental deposits of RMB19,925,000 and other receivables of RMB46,255,000 representing deposits made in connection with an acquisition of an office building located in the PRC.

21. TRADE AND OTHER RECEIVABLES – CONTINUED

The credit terms of the Group range from 30 to 180 days. An aged analysis of trade receivables (net of allowance), presented based on the dates of invoices for sales of goods and services for projected-based development contracts, and dates of rendering of other types of services at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
Within 90 days	2,381,748	1,681,131
Between 91 - 180 days	190,179	246,074
Between 181 - 365 days	296,889	168,267
Between 1 - 2 years	109,965	44,281
	2,978,781	2,139,753

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed each time.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 36.

22. TRANSFER OF FINANCIAL ASSETS

The following are the Group's trade receivables as at 31 December 2019 and 2018 that were factored to certain banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowings (see note 32). These receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2019 RMB'000	2018 RMB'000
Carrying amount of trade receivables	–	1,773
Carrying amount of associated liabilities	–	(1,773)
Net position	–	–

In addition to the above, as at 31 December 2019, trade receivables amounting to RMB386,742,000 (2018: RMB550,377,000) had been factored to independent third parties without recourse. The Group has derecognised these trade receivables in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these trade receivables to the counter parties. Losses related to derecognition of the trade receivables was RMB4,544,000 (2018: RMB7,139,000) which was charged to profit or loss.

23. BILLS RECEIVABLE AND PAYABLE

An aged analysis of bills receivable is as follows:

	2019 RMB'000	2018 RMB'000
Within 90 days	**4,443**	22,212

An aged analysis of bills payable is as follows:

	2019 RMB'000	2018 RMB'000
Within 180 days	**22,051**	45,280

As at 1 January 2018, bills receivable amounted to RMB11,897,000.

24. CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Contract assets	**2,228,494**	2,819,117

As at 1 January 2018, contract assets amounted to RMB2,573,866,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Contract assets, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on expected settlement dates. All contract assets reported at the end of 2019 are current.

Details of the impairment assessment are set out in note 36.

25. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2019 and 2018, the amounts due from related companies mainly represent dividend receivable from an associate of the Group and the advance to associates of the Group. The balances are unsecured, non-interest bearing and repayable on demand.

At the end of 2019 and 2018, the amounts due to related companies principally represent an advance from an associate of the Group, which is unsecured, interest-free and repayable on demand.

26. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks to secure short-term trade facilities granted to the Group and is therefore classified as current asset. The deposits carry interest at the prevailing market interest rate. The weighted average interest rate at the end of the reporting period was 0.76% (2018: 0.50%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts carry at the weighted average interest rate at 0.29% (2018: 0.32%) per annum as at 31 December 2019.

At the end of the reporting period, included in bank balances and pledged deposits are the following amounts denominated in currencies other than the functional currency of the relevant group entities to which they relate.

	2019 **RMB'000**	2018 RMB'000
Hong Kong Dollar	**108,441**	89,477
United States Dollar	**23,534**	45,222
Japanese Yen	**962**	845

In 2019 and 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

27. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**423,757**	639,678
Payroll payables	**678,044**	712,271
Other tax payables	**64,931**	64,792
Other payables	**62,491**	80,270
	1,229,223	1,497,011

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

	2019 RMB'000	2018 RMB'000
Within 90 days	**341,337**	564,584
Between 91 – 180 days	**2,252**	5,620
Between 181 – 365 days	**7,591**	8,113
Between 1 – 2 years	**33,003**	35,431
Over 2 years	**39,574**	25,930
	423,757	639,678

The average credit period on purchases of goods and services is 90 days. The Group has financial risk management policies in place to ensure that sufficient working capital is maintained to meet its obligations when they fall due. Accrued lease liabilities included in trade and other payables were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.

28. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	**125,668**
Within a period of more than one year but not more than two years	**76,205**
Within a period of more than two years but not more than five years	**40,240**
Within a period of more than five years	**7,289**
	249,402
Less: Amount due for settlement with 12 months shown under current liabilities	**(125,668)**
Amount due for settlement after 12 months shown under non-current liabilities	**123,734**

29. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities	138,815	166,078

As at 1 January 2018, contract liabilities amounted to RMB63,550,000.

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers. All contract liabilities reported at the end of 2019 are current.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	101,595	41,808

30. DEFERRED TAXATION

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

	Customer relationship RMB'000	Patent RMB'000	Technology RMB'000	Tax losses RMB'000	Accrued charges RMB'000	Difference between carrying amount and tax basis of interests in an associate RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	(5,916)	(953)	(166)	1,258	4,410	(7,677)	644	(8,400)
Credit to profit or loss	3,468	326	166	1,359	(251)	–	1,191	6,259
Exchange adjustments	485	–	–	129	–	–	(860)	(246)
At 31 December 2018	(1,963)	(627)	–	2,746	4,159	(7,677)	975	(2,387)
Credit to profit or loss	431	326	–	286	(669)	–	(251)	123
Exchange adjustments	–	–	–	46	–	–	6	52
At 31 December 2019	(1,532)	(301)	–	3,078	3,490	(7,677)	730	(2,212)

30. DEFERRED TAXATION – CONTINUED

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets	**8,075**	8,675
Deferred tax liabilities	**(10,287)**	(11,062)
	(2,212)	(2,387)

At the end of the reporting period, the Group had unused tax losses of approximately RMB488,337,000 (2018: RMB334,369,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB14,657,000 (2018: RMB13,076,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB473,680,000 (2018: RMB321,293,000) tax losses due to the unpredictability of future profit streams. Tax losses for which no deferred tax asset is recognised amount to RMB473,680,000 (2018: RMB321,293,000) that will expire in various years before 2024 (2018: 2023).

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according to the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries as at 31 December 2019 amounting to RMB3,874,717,000 (2018: RMB2,955,610,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

31. CONVERTIBLE LOAN NOTES

Convertible loan notes issued in 2017

The Company entered into a subscription agreement in April 2017, as amended in May 2017, with Dan Capital Management Ltd, the subscriber, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, a RMB denominated HK$ settled convertible loan notes which would be settled by an aggregate principal amount of HK$900,000,000 (to be translated to a Renminbi amount at the prevailing market exchange rate of the date of issue of the notes, or the RMB Equivalent Principal Amount for 2017 Notes). The convertible loan notes have been issued on 3 July 2017 in two batches, HK$254,000,000 and HK$646,000,000 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership, respectively, as the ultimate subscribers which were established by Dan Capital Management Ltd.. The RMB Equivalent Principal Amount for 2017 Notes was then determined to be RMB781,290,000 at the fixed exchange rate of RMB0.8681 to HK$1. The maturity date of the convertible loan notes is 3 July 2022.

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2017 – continued

The convertible loan notes entitle the holders to convert them into 180,000,000 ordinary shares of the Company (unless previously redeemed, converted and cancelled) at any time on or prior to the maturity date at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue and capital distribution) of HK$5 per share, translated to RMB4.34 per share at a fixed exchange rate. Interest of 3% per annum will be paid semi-annually with the first interest payment dates fell on 2 January 2018 for the convertible loan notes. Unless previously converted, repaid or cancelled, the convertible loan notes will be redeemed by the Company at the maturity date in HK$ in an amount equivalent to the RMB Equivalent Principal Amount for 2017 Notes outstanding together with accrued interest, calculated at the prevailing market rate for the HK$ to RMB on the maturity date.

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the maturity date. The note holders may request immediate redemption of the convertible loan notes in HK$ in an amount equivalent to the RMB Equivalent Principal Amount for 2017 Notes then outstanding upon occurrence of certain events of defaults. Further details of the issue of convertible loan notes were set out in the announcements made by the Company on 18 April 2017 and 3 July 2017.

At initial recognition, the conversion option component of the convertible loan notes that may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity was separated from the liability component. The conversion option component upon initial recognition is presented in equity under the heading of convertible loan notes reserve. The effective interest rates of the liability component is 6.11% per annum, respectively.

Convertible loan notes issued in 2016

The Company entered into a subscription agreement in February 2016 with Huarong International Asset Management Growth Fund L.P. (the "Noteholder"), the subscriber, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, a RMB denominated US$ settled convertible loan notes which would be settled by an aggregate principal amount of US$70,000,000 (translated to RMB458,649,000 at the prevailing market exchange rate of the date of the agreement of RMB6.5521 to US$1, or the RMB Equivalent Principal Amount for 2016 Notes). The convertible loan notes were issued in two tranches. The first and second tranche convertible loan notes amount to US$30,000,000 and US$40,000,000, and have been issued on 15 February 2016 and 10 March 2016, respectively. The maturity dates of the first and second tranche convertible loan notes are 15 February 2019 and 10 March 2019, respectively.

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2016 – continued

The convertible loan notes entitle the holders to convert them into 181,987,612 ordinary shares of the Company (unless previously redeemed, converted or cancelled) at any time on or prior to the maturity dates at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue and capital distribution) of HK$3 per share, translated to RMB2.52 per share at a fixed exchange rate. Interest of 4.5% per annum will be paid semi-annually with the first interest payment dates fell on 15 August 2016 and 9 September 2016 for the first and second tranche convertible loan notes, respectively. Unless previously converted, repaid or cancelled, the convertible loan notes will be redeemed by the Company at the maturity dates in US$ in an amount equivalent to the RMB Equivalent Principal Amount for 2016 Notes outstanding together with accrued interest, calculated at the prevailing market rate for the US$ to RMB on the maturity dates.

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the maturity dates. The note holder may request immediate redemption of the convertible loan notes in US$ in an amount equivalent to the RMB Equivalent Principal Amount for 2016 Notes then outstanding upon occurrence of certain events of defaults. Further details of the issue of convertible loan notes were set out in the announcement made by the Company on 3 February 2016.

At initial recognition, the conversion option component of the convertible loan notes that may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity was separated from the liability component. The conversion option component upon initial recognition is presented in equity under the heading of convertible loan notes reserve. The effective interest rates of the liability component for the first tranches and second tranches are 8.36% and 8.08% per annum, respectively. Conversions of a portion of the convertible loan notes were made during 2016 and 2018 into 77,994,692 ordinary shares and 25,998,230 ordinary shares, respectively.

As announced by the Company on 6 March 2019, the Company has received a formal request from the Noteholder of the Company, to transfer the remaining principal amount of US$30 million of the notes to Mr. Zhong (the "New Noteholder"), who is the ultimate beneficial owner of one of the Noteholder's limited partners. The Company has registered the transfer of the convertible loan notes. Conversion of the convertible notes was subsequently made on the same day into 77,994,692 ordinary shares.

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2016 – continued

The movement of the liability component of the convertible loan notes for the year is set out below:

	2019 RMB'000	2018 RMB'000
Carrying amount at the beginning of the year	918,204	953,645
Converted by the notes holders	(196,716)	(63,697)
Interest charge (note 7)	46,342	59,236
Interest paid	(16,329)	(30,980)
Carrying amount at the end of the year	751,501	918,204

Analysed for reporting purposes as:

	2019 RMB'000	2018 RMB'000
Current liabilities	23,829	198,263
Non-current liabilities	727,672	719,941
Carrying amount at the end of the year	751,501	918,204

32. BORROWINGS

	2019 RMB'000	2018 RMB'000
Unsecured bank loans (Note (i))	1,723,187	1,673,873
Secured bank loans (Note (ii))	–	1,773
	1,723,187	1,675,646

32. BORROWINGS – CONTINUED

	2019 RMB'000	2018 RMB'000
Carrying amount repayable:		
Within one year	**1,523,187**	1,675,646
More than one year but within five years	**200,000**	–
	1,723,187	1,675,646
Less: Amounts due within one year shown under current liabilities	**(1,523,187)**	(1,675,646)
Amounts shown under non-current liabilities	**200,000**	–

	2019 RMB'000	2018 RMB'000
Total borrowings		
At floating interest rates (Note (iii))	**600,000**	330,000
At fixed interest rates (Note (iv))	**1,123,187**	1,345,646
	1,723,187	1,675,646

The Group's borrowings are denominated in currencies of the relevant group entities' functional currencies.

Notes:

(i) Guaranteed by the Company and certain subsidiaries of the Company.

(ii) Trade receivables with a net carrying value of RMB1,773,000 were pledged in 2018 to secure certain bank loans granted to the Group.

(iii) Interests on borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 4.53% (2018: 4.76%) per annum.

(iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 3.92% to 5.22% (2018: 4.35% to 5.22%) per annum.

33. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2018, 31 December 2018 and 2019	4,000,000,000	200,000

	Number of shares	Amount HK$	Amount shown in the financial statements RMB'000
Issued and fully paid			
At 1 January 2018	2,402,274,436	120,113,722	110,283
Exercise of share options (Note i)	38,040,000	1,902,000	1,661
Conversion of Convertible loan notes (Note ii)	25,998,230	1,299,912	1,050
At 31 December 2018	2,466,312,666	123,315,634	112,994
Conversion of Convertible loan notes (Note iii)	77,994,692	3,899,735	3,331
At 31 December 2019	2,544,307,358	127,215,369	116,325

Notes:

(i) During the year ended 31 December 2018, share options to subscribe for 38,040,000 ordinary shares of HK$0.05 each were exercised from HK$3.27 to HK$3.67 per share (see note 41). These shares rank pari passu with other shares in issue in all respects.

(ii) During the year ended 31 December 2018, convertible loan notes issued in 2016 with the principal amount of US$10,000,000 (translated to RMB65,521,000 at a fixed exchange rate) were converted into 25,998,230 ordinary shares of HK$0.05 each at a conversion price of HK$3.00 (translated to RMB2.52 at a fixed exchange rate) per share (see note 31). These shares rank pari passu with other shares in issue in all respects.

(iii) During the year ended 31 December 2019, convertible loan notes issued in 2016 with the principal amount of US$30,000,000 (translated to RMB196,563,000 at a fixed exchange rate) were converted into 77,994,692 ordinary shares of HK$0.05 each at a conversion price of HK$3.00 (translated to RMB2.52 at a fixed exchange rate) per share (see note 31). These shares rank pari passu with other shares in issue in all respects.

34. SHARE PREMIUM AND RESERVES

Share premium

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

Other reserves

When the proportion of the equity held by non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Other reserves mainly represent the differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received after taking account of the effect of reallocation of certain other reserves of the subsidiaries.

General reserve fund and statutory enterprise expansion fund

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

Statutory surplus reserve fund

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

35. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 32, convertible loan notes disclosed in note 31, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising share capital, share premium, treasury shares and reserves.

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

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019	2018
	RMB'000	RMB'000
Financial assets		
Equity instruments at fair value	62,901	51,508
Financial assets at amortised cost	5,828,179	5,156,518
Financial liabilities		
Amortised cost	2,942,503	3,298,765

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, amounts due from/to related companies, pledged deposits, bank balances and cash, equity investments at fair value, trade and other payables, dividend payable, borrowings, bills payable and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash, trade receivables denominated in foreign currencies arising from income generated from provision of services, and trade and other payables arising from purchases dominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 0.5% (2018: 0.4%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currencies of the group entities providing the services.

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

	Assets		Liabilities	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong Dollar	108,684	89,534	4,465	557
United States Dollar	95,725	45,222	7,720	–
Japanese Yen	14,984	4,371	1,196	–
Others	9,595	–	24	–

36. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

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

Sensitivity analysis

The Group is mainly exposed to Hong Kong Dollar, United States Dollar and Japanese Yen.

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

	Hong Kong Dollar Impact (Note a)		**United States Dollar Impact** (Note b)		**Japanese Yen Impact** (Note c)	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit for the year	**(3,908)**	(3,337)	**(3,300)**	(1,696)	**(517)**	(164)

Notes:

(a) This is mainly attributable to the exposure on Hong Kong Dollar trade receivables, bank balances, trade payable and other payables at the end of the reporting periods.

(b) This is mainly attributable to the exposure on United States Dollar trade receivables, bank balances, other receivable, trade payable and other payables at the end of the reporting periods.

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

36. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk

The Group's fair value interest rate risk is the risk that the fair value of a fixed rate financial instruments will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 31 December 2019, except for an amount of RMB600,000,000 (2018: RMB330,000,000) of bank borrowings at floating rates, all remaining bank borrowings of the Group are at fixed rate.

The Group is exposed to fair value interest rate risk in relation to convertible loan notes (see note 31), borrowings with fixed interest rates (see note 32), amounts due to related companies (see note 25) and lease liabilities (see note 28). The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings (see note 32) and short-term bank deposits (see note 26) which are mainly concentrated on the fluctuation of prevailing interest rate announced by the Peoples' Bank of China in respect of an unsecured bank loan. The Group kept certain borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk as at 31 December 2019 and 2018. The directors of the Company will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings (see note 32). A 50 basis points (2018: 50 basis points) increase or decrease is used for borrowings when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Short-term bank deposits are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate short-term bank balances is insignificant.

In respect of the floating rate borrowings, if interest rates had been 50 basis points (2018: 50 basis points) higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by RMB1,869,000 (2018: RMB1,238,000).

In respect of the fixed rate borrowings, if interest rates had been 50 basis points (2018: 50 basis points) higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by RMB7,133,000 (2018: RMB5,046,000).

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, contract assets, pledged bank deposits, bank balances, amounts due from related companies and other receivables. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group performed impairment assessment for financial assets and other items under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

36. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Credit risk and impairment assessment – continued

In order to minimise the credit risk, the management of the Group has delegated specific persons responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performed impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in the PRC. Trade receivables reported by the Group's operating entities in the PRC accounted for 95.3% (2018: 95.8%) of the total trade receivables as at 31 December 2019. The Group has concentration of credit risk as 46.9% (2018: 52.7%) and 62.4% (2018: 67.0%) of the total trade receivable was due from the Group's largest customer and the five largest customers respectively. In addition, there is concentration of credit risk on liquid funds which are deposited with several authorised banks in the PRC. Other than the above, the Group does not have any other significant concentration of credit risk.

For the purposes of impairment assessment, other receivables, amounts due from related parties and non-current other receivables are not considered to have a high credit risk as the counterparties to these financial assets have a fair credit rating.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings in the PRC and Hong Kong.

As part of Group's credit risk management, the Group applies internal credit rating for its customers in relation to its business operation. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed collectively based on provision matrix within lifetime ECL (not credit-impaired) as at 31 December 2019 and 2018.

Provision matrix:		2019		2018	
		Gross carrying amount		Gross carrying amount	
	Loss rates	Trade receivables	Contract assets	Trade receivables	Contract assets
Internal credit rating	%	RMB'000	RMB'000	RMB'000	RMB'000
Category-1: Low risk	0.10%-0.95%	**267,483**	**124,069**	168,175	153,065
Category-2 to 3: Medium to high risk	2.01%-29.61%	**301,392**	**348,854**	287,704	353,256
Category-4 to 5: Very high risk to extremely high risk	40.31%-100.00%	**110,047**	**8,699**	99,620	–

Credit impaired debtors and certain debtors with significant outstanding balances of a total gross carrying amount of RMB2,483,336,000 (2018: RMB1,751,924,000) and certain contract assets with significant outstanding balances of a gross carrying amount of RMB1,844,171,000 (2018: RMB2,406,514,000) as at 31 December 2019 are assessed individually.

36. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Credit risk and impairment assessment – continued

During the year ended 31 December 2019, the Group provided RMB26,945,000 (2018: RMB30,068,000) and RMB17,300,000 (2018: RMB1,265,000) impairment allowance for trade receivables and contract assets, respectively, based on provision matrix. Impairment loss of RMB4,674,000 (2018: RMB13,468,000) and RMB48,368,000 (2018: RMB7,215,000) for trade receivables and contract assets, respectively, were made during the year ended 31 December 2019 based on individual assessment of credit impaired debtors, certain debtors and contract assets with significant outstanding balances. Such allowance is measured at an amount equal to lifetime ECL in accordance with simplified approach.

The estimated loss rates are estimated based on historical credit loss experience, adjusted for factors that are specific to the debtors and forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The following table shows the impairment losses recognised in 2019 and 2018 described above and other movements in the loss allowance for trade receivables and contract assets.

	RMB'000
At 31 December 2017 under HKAS 39	208,090
Adjustment upon application of HKFRS 9	15,561
Exchange adjustments	53
Impairment losses recognised on trade receivables	43,536
Impairment losses reversed on trade receivables	(8,082)
Impairment losses recognised on contract assets	8,480
Impairment losses reversed on contract assets	(6,250)
At 31 December 2018	261,388
Exchange adjustments	22
Impairment losses recognised on trade receivables	31,619
Impairment losses reversed on trade receivables	(15,834)
Impairment losses recognised on contract assets	65,668
Impairment losses reversed on contract assets	(22,087)
At 31 December 2019	320,776

36. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2019, the Group has available unutilised general borrowing facilities of approximately RMB3,371,505,000 (2018: RMB792,170,000).

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity tables

	Weighted average interest rate	On demand or less than 6 months	Over 6 months but not more than 1 year	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2019
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019							
Non derivative financial liabilities							
Trade and other payables		442,582	–	–	–	442,582	442,582
Bills payable		22,051	–	–	–	22,051	22,051
Amounts due to related companies		3,101	–	–	–	3,101	3,101
Dividend payable		81	–	–	–	81	81
Borrowings	4.53	956,536	613,032	202,688	–	1,772,256	1,723,187
Leases liabilities	4.78	79,616	50,039	84,579	63,846	278,080	249,402
Convertible loan notes	6.11	11,980	11,850	23,764	704,424	752,018	751,501
		1,515,947	674,921	311,031	768,270	3,270,169	3,191,905

36. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Weighted average interest rate %	On demand or less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2018 RMB'000
2018							
Non derivative financial liabilities							
Trade and other payables		641,369	–	–	–	641,369	641,369
Bills payable		45,280	–	–	–	45,280	45,280
Amounts due to related companies		18,185	–	–	–	18,185	18,185
Dividend payable		81	–	–	–	81	81
Borrowings	4.76	746,798	1,678,673	–	–	2,425,471	1,675,646
Convertible loan notes	6.52	212,990	11,784	11,980	721,912	958,666	918,204
		1,664,703	1,690,457	11,980	721,912	4,089,052	3,298,765

37. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Fair value hierarchy as at 31 December 2019

	Level 3 RMB'000
Financial assets	
Equity instruments at fair value	62,901

Fair value hierarchy as at 31 December 2018

	Level 3 RMB'000
Financial assets	
Equity instruments at fair value	51,508

The valuation technique and key input are based on net asset value of the relevant fund, principally determined by net asset value of its underlying investments. The significant unobservable input is net asset value, a significant change of which would result in a significant change in the fair value measurement.

37. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – CONTINUED

(ii) Reconciliation of level 3 fair value measurements:

	Equity instruments at fair value
	RMB'000
At 1 January 2018	65,342
Changes in fair value	(13,834)
At 31 December 2018	51,508
Purchases	15,000
Changes in fair value	(4,711)
Exchange adjustments	1,104
Balance at 31 December 2019	62,901

38. PLEDGE OF OR RESTRICTIONS ON ASSETS

At the end of 2019 and 2018, the Group pledged certain bank deposits to secure short-term trade facilities granted to the Group (see note 26). As at the end of 2018, the Group pledged the collection rights in certain trade receivables to secure repayment of the bank loans (see note 32).

In addition, lease liabilities of RMB249,402,000 are recognised with related right-of-use assets of RMB278,646,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessors and the relevant leased assets may not be used as security for borrowing purposes.

39. OPERATING LEASE

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

	2018 RMB'000
Within one year	155,535
In the second to fifth year inclusive	188,142
Over five years	21,879
	365,556

Operating lease payments represent rentals payable by the Group for certain premises for training centres, office properties and storeroom. Leases are negotiated for lease terms ranging from one year to ten years in 2018 for the Group and rentals are normally fixed during the lease periods.

40. CAPITAL COMMITMENTS

	2019 **RMB'000**	2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	**6,671**	17,686
	6,671	17,686

In addition, as at 31 December 2019, the Group is committed to contributions of further capital amounting to RMB83,685,000 (2018: RMB113,100,000) under the relevant agreements for its investments in entities accounted for using equity method and using fair value.

41. SHARE-BASED PAYMENTS

Share option schemes

The Company's first share option scheme (the "2003 Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2003 by the shareholders for the purpose of providing incentives and rewards to the people and the parties working for the interest of the Group. The 2003 Share Option Scheme will remain valid for a period of ten years commencing on 2 June 2003. Pursuant to a resolution passed on 20 May 2013, the 2003 Share Option Scheme which would be expired on 1 June 2013 was terminated and a new share option scheme (the "2013 Share Option Scheme") (together with the 2003 Share Option Scheme, collectively referred to as the "Share Option Schemes") was adopted. Upon termination of the 2003 Share Option Scheme, no further options may be offered thereunder but in all other respects the provisions of the 2003 Share Option Scheme shall remain in full force and effect. The expiry of the 2003 Share Option Scheme will not in any event affect the terms of those outstanding options that have already been granted under the 2003 Share Option Scheme.

Under the Share Option Schemes, the board of directors may grant options to eligible participants including the directors, full-time and part-time employees of the Company or any of its subsidiaries or associates, suppliers and customers of the Company or any of its subsidiaries or associates to subscribe for shares in the Company in accordance with the terms of the Share Option Schemes. An offer for the grant of options must be accepted within 30 days from the date of offer, and a consideration of HK$1.00 is payable by each of the participants on acceptance of the grant of options.

An option may be exercised in accordance with the terms of the Share Option Schemes at any time during a period of not more than ten years after the date on which an offer of the grant of an option is accepted. The subscription price for shares under the Share Option Schemes will be a price determined by the board of directors and notified to each grantee and will be no less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer and; (iii) the nominal value of a share.

41. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

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

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2019 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2019	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2019
Non-executive directors:									
Gavriella Schuster	28.9.2018	HK$5.22	Nil	28.9.2018 – 27.9.2021	300,000	–	–	–	300,000
			28.9.2018 – 27.9.2019	28.9.2019 – 27.9.2021	300,000	–	–	–	300,000
			28.9.2018 – 27.9.2020	28.9.2020 – 27.9.2021	400,000	–	–	–	400,000
					1,000,000	–	–	–	1,000,000

41. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2019 are as follows: – continued

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2019	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2019
Employees:	11.10.2016	HK$3.69	11.10.2016 – 10.10.2017	11.10.2017 – 10.10.2020	40,000,000	–	–	–	40,000,000
			11.10.2016 – 10.10.2018	11.10.2018 – 10.10.2020	24,000,000	–	–	–	24,000,000
			11.10.2016 – 10.10.2019	11.10.2019 – 10.10.2020	16,000,000	–	–	–	16,000,000
	17.11.2016	HK$3.69	Nil	17.11.2016 – 16.11.2019	15,000,000	–	–	(15,000,000)	–
			17.11.2016 – 16.11.2017	17.11.2017 – 16.11.2019	15,000,000	–	–	(15,000,000)	–
			17.11.2016 – 16.11.2018	17.11.2018 – 16.11.2019	20,000,000	–	–	(20,000,000)	–
	16.1.2017	HK$3.67	Nil	16.1.2017 – 15.1.2020	25,460,000	–	–	–	25,460,000
			16.1.2017 – 16.1.2018	16.1.2018 – 15.1.2020	25,500,000	–	–	–	25,500,000
			16.1.2017 – 16.1.2019	16.1.2019 – 15.1.2020	34,000,000	–	–	–	34,000,000
					214,960,000	–	–	(50,000,000)	164,960,000
Suppliers:	21.9.2017	HK$4.50	Nil	21.9.2017 – 20.9.2020	6,000,000	–	–	–	6,000,000
			21.9.2017 – 20.9.2018	21.9.2018 – 20.9.2020	6,000,000	–	–	–	6,000,000
			21.9.2017 – 20.9.2019	21.9.2019 – 20.9.2020	8,000,000	–	–	–	8,000,000
					20,000,000	–	–	–	20,000,000
Total					235,960,000	–	–	(50,000,000)	185,960,000
Exercisable at the end of the year									185,960,000
Weighted average exercise price					HK$3.83	–	–	HK$3.69	HK$3.77

41. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2018 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2018
Non-executive directors:									
Zhang Yaqin	16.12.2015	HK$3.27	Nil	16.12.2015 – 15.12.2018	900,000	–	(900,000)	–	–
			16.12.2015 – 15.12.2016	16.12.2016 – 15.12.2018	900,000	–	(900,000)	–	–
			16.12.2015 – 15.12.2017	16.12.2017 – 15.12.2018	1,200,000	–	(1,200,000)	–	–
Gavriella Schuster	28.9.2018	HK$5.22	Nil	28.9.2018 – 27.9.2021	–	300,000	–	–	300,000
			28.9.2018 – 27.9.2019	28.9.2019 – 27.9.2021	–	300,000	–	–	300,000
			28.9.2018 – 27.9.2020	28.9.2020 – 27.9.2021	–	400,000	–	–	400,000
					3,000,000	1,000,000	(3,000,000)	–	1,000,000

41. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2018 are as follows: – continued

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2018
Employees:	16.12.2015	HK$3.27	Nil	16.12.2015 – 15.12.2018	10,500,000	–	(10,500,000)	–	–
			16.12.2015 – 15.12.2016	16.12.2016 – 15.12.2018	10,500,000	–	(10,500,000)	–	–
			16.12.2015 – 15.12.2017	16.12.2017 – 15.12.2018	14,000,000	–	(14,000,000)	–	–
	11.10.2016	HK$3.69	11.10.2016 – 10.10.2017	11.10.2017 – 10.10.2020	40,000,000	–	–	–	40,000,000
			11.10.2016 – 10.10.2018	11.10.2018 – 10.10.2020	24,000,000	–	–	–	24,000,000
			11.10.2016 – 10.10.2019	11.10.2019 – 10.10.2020	16,000,000	–	–	–	16,000,000
	17.11.2016	HK$3.69	Nil	17.11.2016 – 16.11.2019	15,000,000	–	–	–	15,000,000
			17.11.2016 – 16.11.2017	17.11.2017 – 16.11.2019	15,000,000	–	–	–	15,000,000
			17.11.2016 – 16.11.2018	17.11.2018 – 16.11.2019	20,000,000	–	–	–	20,000,000
	16.1.2017	HK$3.67	Nil	16.1.2017 – 15.1.2020	25,500,000	–	(40,000)	–	25,460,000
			16.1.2017 – 16.1.2018	16.1.2018 – 15.1.2020	25,500,000	–	–	–	25,500,000
			16.1.2017 – 16.1.2019	16.1.2019 – 15.1.2020	34,000,000	–	–	–	34,000,000
					250,000,000	–	(35,040,000)	–	214,960,000
Suppliers:	21.9.2017	HK$4.50	Nil	21.9.2017 – 20.9.2020	6,000,000	–	–	–	6,000,000
			21.9.2017 – 20.9.2018	21.9.2018 – 20.9.2020	6,000,000	–	–	–	6,000,000
			21.9.2017 – 20.9.2019	21.9.2019 – 20.9.2020	8,000,000	–	–	–	8,000,000
					20,000,000	–	–	–	20,000,000
Total					273,000,000	1,000,000	(38,040,000)	–	235,960,000
Exercisable at the end of the year									177,260,000
Weighted average exercise price					HK$3.68	HK$5.22	HK$3.27	–	HK$3.83

41. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The estimated fair value of the share options granted on 16 January 2017 was HK$0.94 to HK$1.16 per option. Fair values were calculated using the binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

Share price on grant date	HK$3.58
Exercise price	HK$3.67
Expected volatility	52.17%
Time to maturity	3 years
Risk-free rate	1.20%
Expected dividend yield	0.00%
Expected exercise period	0 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,096 days up to 2017.

The estimated fair value of the share options granted on 21 September 2017 was HK$1.28 to HK$1.47 per option. Fair values were calculated using the binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

Share price on grant date	HK$4.50
Exercise price	HK$4.50
Expected volatility	49.19%
Time to maturity	3 years
Risk-free rate	1.01%
Expected dividend yield	0.27%
Expected exercise period	0 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,096 days up to 2017.

41. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The estimated fair value of the share options granted on 28 September 2018 was HK$1.34 to HK$1.39 per option. Fair values were calculated using the binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

Share price on grant date	HK$5.22
Exercise price	HK$5.22
Expected volatility	36.71%
Time to maturity	3 years
Risk-free rate	2.41%
Expected dividend yield	0.34%
Expected exercise period	0 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,096 days up to 2018.

The Group recognised a total expense of RMB9,807,000 for the year ended 31 December 2019 (2018: RMB53,297,000) in relation to share options granted by the Company.

Share award scheme

Pursuant to a resolution passed on 10 December 2018 by the board of directors of the Company, a share award scheme ("Share Award Scheme") was adopted. The board of directors of the Company may, at its absolute discretion, select any employee to participate in the Share Award Scheme and grant shares to the employee at no consideration. The purpose of the Share Award Scheme is to recognise the contributions by certain qualifying employees of the Group and to provide them with incentives in order to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Group. On the same date, a trust was established under a trust deed entered into by the Company to administer the Share Award Scheme, and for the purchase or subscription of the shares of the Company, based on financial support given by the Group. Any shares subsequently awarded by the Company to the qualifying employees will be settled with the shares held by the trust on behalf of the Company. The directors of the Company have determined that the Company controls the trust through the trust deed and therefore consolidates the trust.

Subject to any early termination as may be determined by the board of directors of the Company pursuant to the Share Award Scheme rules, the Share Award Scheme shall be valid and effective for a term of ten (10) years commencing on the Adoption Date.

41. SHARE–BASED PAYMENTS – CONTINUED

Share award scheme – continued

The board of directors of the Company shall not make any further award of shares which will result in the nominal value of the shares awarded by the board of directors of the Company under the Share Award Scheme exceeding ten per cent of the issued share capital of the Company from time to time.

The maximum number of shares which may be awarded to a qualifying employee under the Share Award Scheme shall not exceed one per cent of the issued share capital of the Company from time to time.

During 2019, the Company contributed RMB394,301,000 (2018: RMB76,451,000) for financing purchases of 123,932,000 (2018: 22,078,000) shares of the Company, which are currently held under the Share Award Scheme and such amount is deducted from equity as treasury shares. No share awards have been granted to any qualifying employees.

42. RETIREMENT BENEFITS SCHEMES

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

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

During the year, the total cost of retirement benefits contributions charged to profit or loss RMB408,832,000 (2018: RMB403,282,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in trade and other payables) RMB'000 (note 27)	Borrowings RMB'000 (note 32)	Convertible loan notes RMB'000	Lease liabilities RMB'000	Amounts due to related companies RMB'000	Dividend payable RMB'000
As at 1 January 2018	1,567	685,750	953,645	–	59,151	78
New borrowings raised	–	3,275,798	–	–	–	–
Repayment of borrowings	–	(2,292,100)	–	–	–	–
Issue of convertible loan notes	–	–	–	–	–	–
Conversion of convertible loan notes	–	–	(63,697)	–	–	–
Interest expenses	–	58,751	59,236	–	–	–
Repayment to related companies	–	–	–	–	(40,966)	–
Interest paid	(1,567)	(52,553)	(30,980)	–	–	–
Dividend declared	–	–	–	–	–	36,875
Dividend paid	–	–	–	–	–	(36,875)
Foreign exchange translation	–	–	–	–	–	3
As at 31 December 2018	–	1,675,646	918,204	–	18,185	81
Adjustment upon application of HKFRS 16	–	–	–	231,672	–	–
As at 1 January 2019 (restated)	–	1,675,646	918,204	231,672	18,185	81
New borrowings raised	–	2,916,584	–	–	–	–
Repayment of borrowings	–	(2,864,948)	–	–	–	–
New leases entered/lease modified	–	–	–	121,307	–	–
Repayments of lease liabilities	–	–	–	(117,935)	–	–
Issue of convertible loan notes	–	–	–	–	–	–
Conversion of convertible loan notes	–	–	(196,716)	–	–	–
Interest expenses	–	105,345	46,342	14,358	–	–
Advance from related companies	–	–	–	–	2,056	–
Repayment to related companies	–	–	–	–	(17,187)	–
Interest paid	–	(109,440)	(16,329)	–	–	–
Dividend declared	–	–	–	–	–	48,121
Dividend paid	–	–	–	–	–	(48,121)
As at 31 December 2019	–	1,723,187	751,501	249,402	3,054	81

As at 31 December 2019 and 2018, the interests accrued on borrowings of the Group are included in the carrying amounts of the corresponding financial liabilities.

44. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with the Group's associates (including their subsidiaries), other than those disclosed elsewhere in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Provision of IT outsourcing services by the Group	329	1,451

	2019 RMB'000	2018 RMB'000
Provision of IT solution services by the Group	3,661	1,091

	2019 RMB'000	2018 RMB'000
Provision of other services by the Group	598	–

Compensation of key management personnel

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	32,472	18,843
Retirement benefits costs	232	249
Share option expenses	1,138	3,841
	33,842	22,933

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

45. MAJOR NON-CASH TRANSACTIONS

In 2019, the Group entered into new lease agreements for the use of leased properties for 1-5 years. On the lease commencement, the Group recognised right-of-use assets of RMB125,390,000 and lease liabilities of RMB125,390,000.

For the year ended 31 December 2019

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries directly and indirectly held by the company at the end of the reporting period are set out below:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
Chinasoft International (Hong Kong) Limited	Hong Kong	HK$100	–	–	100	100	Investment holding and trading of standalone software products
中軟國際科技服務(香港)有限公司 Chinasoft International Technology Service (Hong Kong) Limited	Hong Kong	HK$100,000	–	–	100	100	Provision of IT outsourcing services
Chinasoft Interfusion Inc.	USA	US$0.01	–	–	100	100	Provision of IT outsourcing services
北京中軟國際信息技術有限公司 Chinasoft Beijing	PRC	RMB200,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Training Center (Note i)	PRC	RMB500,000	–	–	100	100	Provision of IT training services
厦門中軟海晟信息技術有限公司 CSIHS	PRC	RMB80,000,000	–	–	51	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
上海中軟華騰軟件系统有限公司 Shanghai Huateng	PRC	US$8,000,000	–	–	100	100	Development and provision of IT system
中軟國際科技服務有限公司 CSITS	PRC	RMB100,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際(上海)科技服務有限公司 Chinasoft International Technology Service (Shanghai) Ltd.	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
北京中軟國際科技服務有限公司 CSITS BJ	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際科技服務(大連)有限公司	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
Catapult Systems, LLC	USA	US$4,792,248	–	–	100	100	Provision of Microsoft product and technology consultancy services
武汉中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of IT outsourcing service
深圳中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of solutions IT outsourcing IT consulting
中軟國際科技服務南京有限公司	PRC	RMB20,000,000	–	–	100	100	Provision of solutions IT outsourcing IT consulting
CSI Interfusion SDN.BHD	MY	MYR1,000,100	–	–	100	100	Provision of solutions IT outsourcing IT consulting
解放號網絡科技有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of solutions

Except for convertible loan notes issued by the Company, none of the subsidiaries had any debt securities outstanding at 31 December 2019 or at any time during the year.

Note i: The entity is registered as an institutional organisation under the PRC law.

Note ii: All the PRC established entities, except for the entity mentioned in Note i, are registered as limited liability companies.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

The table below shows details of a non-wholly-owned subsidiary of the Company that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
CSIHS	PRC	49%	49%	1,942	608	45,162	43,220
Individually immaterial subsidiaries with non-controlling interests						21,168	21,313
						66,330	64,533

Summarised financial information in respect of the non-wholly-owned subsidiary of the Company that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

CSIHS	2019 RMB'000	2018 RMB'000
Current assets	170,153	154,642
Non-current assets	11,442	11,956
Current liabilities	(89,006)	(78,688)
Equity attributable to owners of the Company	47,427	44,690
Equity attributed to non-controlling interests	45,162	43,220
Revenue	145,242	141,578
Expenses	(141,279)	(140,337)
Profit and total comprehensive income for the year	3,963	1,241
Net cash generated from operating activities	6,526	11,933
Net cash used in investing activities	(623)	(435)
Net cash generated from (used in) financing activities	9,187	(11,700)
Net increase (decrease) in cash and cash equivalents	15,090	(202)

47. EVENTS AFTER THE REPORTING PERIOD

(a) The outbreak of the 2019 Novel Coronavirus ("COVID-19") in China and the subsequent quarantine measures imposed by the Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group since February 2020, as most of the Group's operations are located in China. The Group had to temporarily close some of its offices and request the majority of employees in China to work from home in February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. Since then, the Group has implemented certain controls and measures to minimise the impact of COVID-19 on its operations and has gradually resumed its business activities. In addition, certain local authorities have issued preferential policies to support business enterprises.

The directors of the Company are still assessing the financial impact that the COVID-19 will have on the Group's financial statements.

(b) In January and March 2020, the Company raised bank loans of HK$100 million and HK$1,700 million respectively, with a repayment period of three years.

48. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2019 RMB'000	2018 RMB'000
Non-current assets		
Interests in subsidiaries	**2,152,671**	2,152,671
Current assets		
Other receivables	**2,590**	44,958
Amounts due from subsidiaries	**316,145**	798,272
Bank balances and cash	**11,453**	47,307
	330,188	890,537
Current liabilities		
Other payables	**1,927**	1,717
Amounts due to related companies	**118**	118
Dividend payable	**81**	81
Convertible loan notes	**23,829**	198,263
	25,955	200,179
Net current assets	**304,233**	690,358
Total assets less current liabilities	**2,456,904**	2,843,029
Non-current liabilities		
Convertible loan notes	**727,672**	719,941
	1,729,232	2,123,088
	1,729,232	2,123,088
Capital and reserves		
Share capital	**116,325**	112,994
Share premium	**3,145,241**	2,982,319
Treasury shares	**(470,752)**	(76,451)
Reserves (Note)	**(1,061,582)**	(895,774)
Total equity	**1,729,232**	2,123,088

48. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY – CONTINUED

Note: Movement in reserves

	Equity-settled share-based payment reserve	Convertible loan notes reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	216,130	124,174	(1,141,689)	(801,385)
Loss and total comprehensive expenses for the year	–	–	(107,478)	(107,478)
Issue of ordinary shares upon exercise of share options	(34,322)	–	–	(34,322)
Recognition of share option expenses	53,297	–	–	53,297
Conversion of convertible loan notes	–	(5,886)	–	(5,886)
At 31 December 2018	235,105	118,288	(1,249,167)	(895,774)
Loss and total comprehensive expenses for the year	–	–	(157,957)	(157,957)
Recognition of share option expenses	9,807	–	–	9,807
Expiry of share options	(48,025)	–	48,025	–
Conversion of convertible loan notes	–	(17,658)	–	(17,658)
At 31 December 2019	196,887	100,630	(1,359,099)	(1,061,582)

Financial Summary

RESULTS

	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	5,129,111	6,783,367	9,243,684	10,585,013	**12,041,895**
Profit before taxation	419,994	524,587	632,769	760,454	**798,958**
Income tax expense	(87,010)	(114,754)	(71,462)	(44,283)	**(42,272)**
Profit for the year	332,984	409,833	561,307	716,171	**756,686**
Attributable to:					
Owners of the Company	280,056	442,081	565,567	715,803	**754,888**
Non-controlling interests	52,928	(32,248)	(4,260)	368	**1,798**
	332,984	409,833	561,307	716,171	**756,686**
	HKD (cents)	HKD (cents)	HKD (cents)	HKD (cents)	**HKD (cents)**
Dividend	–	1.2	1.8	2.15	**2.19**

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	6,348,453	7,229,303	8,751,533	10,488,244	**10,745,396**
Total liabilities	(2,862,183)	(2,896,664)	(3,521,567)	(4,456,721)	**(4,211,456)**
	3,486,270	4,332,639	5,229,966	6,031,523	**6,533,940**