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**中软国际**

**CHINASOFT INTERNATIONAL LIMITED**

**中軟國際有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 354)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

<b>Results for the first half of 2019</b>			
	<b>For the six months ended 30 June</b>		
<b>Income statement highlights</b>	<b>2019 (unaudited) RMB'000</b>	<b>2018 (unaudited) RMB'000</b>	<b>% Change</b>
Revenue	<b>5,538,248</b>	4,813,853	15.0%
Revenue from service	<b>5,493,458</b>	4,770,267	15.2%
Profit for the period	<b>358,967</b>	355,805	0.9%
<b>Profit attributable to Owners of the Company</b>	<b>362,695</b>	358,759	1.1%
Basic EPS (RMB cents)	<b>14.64</b>	14.87	(1.5%)
<ul style="list-style-type: none"> <li>• The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019.</li> <li>• No closure for the Register of Members of the Company.</li> </ul>			

## MANAGEMENT DISCUSSION AND ANALYSIS

### KEY OPERATING DATA

During the first half of 2019, the Group's businesses achieved steady growths. The Group's revenue, service revenue, profit for the period, and profit attributable to the owners of the Company increased by 15.0%, 15.2%, 0.9%, and 1.1% YoY. The Group's EPS decreased by 1.5% YoY.

	Six Months Ended 30 June		% Change
	2019	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Revenue</b>	<b>5,538,248</b>	4,813,853	15.0%
Service revenue	<b>5,493,458</b>	4,770,267	15.2%
Profit for the period	<b>358,967</b>	355,805	0.9%
Profit attributable to owners of the Company	<b>362,695</b>	358,759	1.1%
Basic EPS (RMB cents)	<b>14.64</b>	14.87	(1.5%)

The key operating data (unaudited) for the six months ended 30 June 2019 are as follow:

	Six Months Ended 30 June		% Change
	2019	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Revenue</b>	<b>5,538,248</b>	4,813,853	15.0%
Service revenue	<b>5,493,458</b>	4,770,267	15.2%
Cost of Sales and services	<b>(3,971,495)</b>	(3,423,801)	16.0%
<b>Gross Profit</b>	<b>1,566,753</b>	1,390,052	12.7%
Other income	<b>60,498</b>	18,945	219.3%
Other gains or losses	<b>(163)</b>	3,737	(104.4%)
Selling and distribution costs	<b>(265,745)</b>	(233,003)	14.1%
Other expenses	<b>(30,150)</b>	(36,641)	(17.7%)
Administrative expenses	<b>(832,932)</b>	(679,967)	22.5%
Finance Costs	<b>(85,411)</b>	(54,573)	56.5%
Impairment losses, net of reversal	<b>(12,326)</b>	(145)	8400.7%
Share of results of investments accounted for using the equity method	<b>(7,845)</b>	(15,265)	(48.6%)
Loss from derecognition of financial assets measured at amortised cost	<b>(2,497)</b>	(4,717)	(47.1%)
<b>Profit before taxation</b>	<b>390,182</b>	388,243	0.5%
Income tax expense	<b>(31,215)</b>	(32,618)	(4.3%)
<b>Profit for the period</b>	<b>358,967</b>	355,805	0.9%

## GENERAL OVERVIEW

The year 2019 is a year full of battles. In the face of the slowdown in domestic economic growth and the back and forth trade war between China and the United States, the Group united its efforts and determined a blueprint to achieve continued growth for the interim results. The Group's legacy business increased despite market conditions and the cloud intelligent transformation officially set sail. The Group was selected as one of the top 100 global IT service providers by Gartner for the first time, demonstrating the value and responsibility of a leading Chinese IT company.

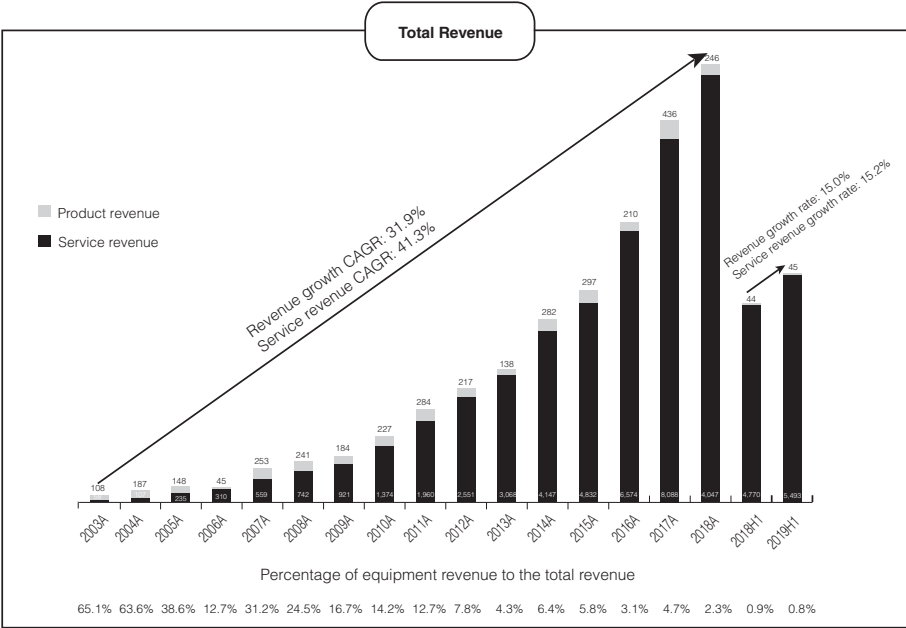
During the reporting period, the Group became one of Huawei Consumer Business Group's core IT suppliers, achieved strategic development through Huawei's "Co-sell" model, and achieved standardization of full process from signing business to delivery. HSBC's business continued to grow and expanded its competitive advantages in digital transformation business delivery capabilities. This led to new businesses and contracts. Tencent's business grew rapidly, winning many projects including WeChat test package, WeChat fun content review, and Youku Cantonese review. The Group and Ali business developed from a single model to a dual mode of auditing and labeling, and the S2 BPO business won the first place of all suppliers. The Group expanded its businesses with Baidu and its associated company, including projects with iQiyi, Baidu crowdsourcing, Du Xiaoman AI voice annotation, and etc., and started business with the Baidu IDG automatic driving department. The Group's business with Microsoft has not been affected by the Sino-US trade war, and the overall growth has been steady. The Group was certified as one of Microsoft PowerApps' Silver Partner.

During the reporting period, the Group leveraged its years of experience to bring its customers onto the cloud and its variety of cloud products to bring stable and sustainable revenue to the Group. The Group's intelligent customer service, Honeycomb diagnosis, data management, smart credit and other industry solutions were incorporated into Huawei's "select marketing". Furthermore, the Group completed the planning and design of the park solution, and successfully built a "smart store" solution. Its "Video and Audio Cloud" and "Software Education Cloud", based on the audio and video solution products independently developed by Tencent Cloud, obtained independent intellectual property rights. Catapult's solution for simplifying IT security and compliance processes, Spyglass, is recognized by the market. The Jointforce Platform improved its traditional business offerings to launch its manpower outsourcing business, the "Z Plan". The "Z Plan" already recruited more than 400 IT suppliers, serving nearly 100 customers and completing more than 100 tasks. The Group continued to develop and expand its "Cloud Integrative Market" business. The operation results in Nanjing and Xi'An exceeded expectations. The platform has registered more than 2,000 government unit and 300 projects. The project amount exceeded RMB100 million. Guangzhou Baiyun and Chongqing Yubei have also started operations. The Group has reached strategic cooperation with Chengdu, Changsha and Guizhou to launch the "Cloud Integrative Market" service.

During the reporting period, the Group built a corporate cloud service system, improved cloud professional service capabilities, and continuously improved the cloud business layout. The Group used Design Thinking (DT) methodology as the traction, leveraged the digital transformation professional consultation, deeply explored the pain points of customer business, and successfully built an end-to-end service system from cloud consulting, cloud migration, cloud implementation, cloud development to cloud management. The Group developed industry solutions based on industry characteristics. The Group’s big data business has grown rapidly, gradually expanding its industry layout, and has been stable in the finance, airport, one-card access, government administrations, and other industries. The Group continued to maintain its competitive advantages in the high-tech and automobile industries, and continued to explore new customers and new businesses in the tobacco, real estate, food and other industries. The Group established its intelligent manufacturing business brand - “The Honeycomb”, and is committed in becoming China’s leading intelligent manufacturer and intelligent manufacturing solutions platform operator.

Looking forward into the future, the Group will cooperate with Huawei and other strategic customers through “Zero Distance Innovation”, continue to improve service capabilities and customer satisfaction, use the Jointforce concept to transform the core businesses, and use AI and big data to focus on cloud intelligence businesses and realize the Group’s smart cloud transformation strategy. The Group will continue to demonstrate its fighting spirit and move toward the 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 31.9% and 41.3% respectively from 2003-2018. For the first half of 2019, the revenue and service revenue achieved a YoY growths of 15.0% and 15.2%. The details are as follow:



## Customers

The Group's customers include large enterprises with headquarters in the Greater China region, Europe, America, and Japan. In the Chinese market, the Group holds a large market share in telecommunication, banking, financial, high technology, and other mainstream industries. In the first half of 2019, the Group's top five and top ten customers accounted for 72.3% and 77.0% of the Group's service revenue.

As of 30 June 2019, the Group has 113 large customers (contributed to more than RMB6 million of service revenue within the past 12 months.)

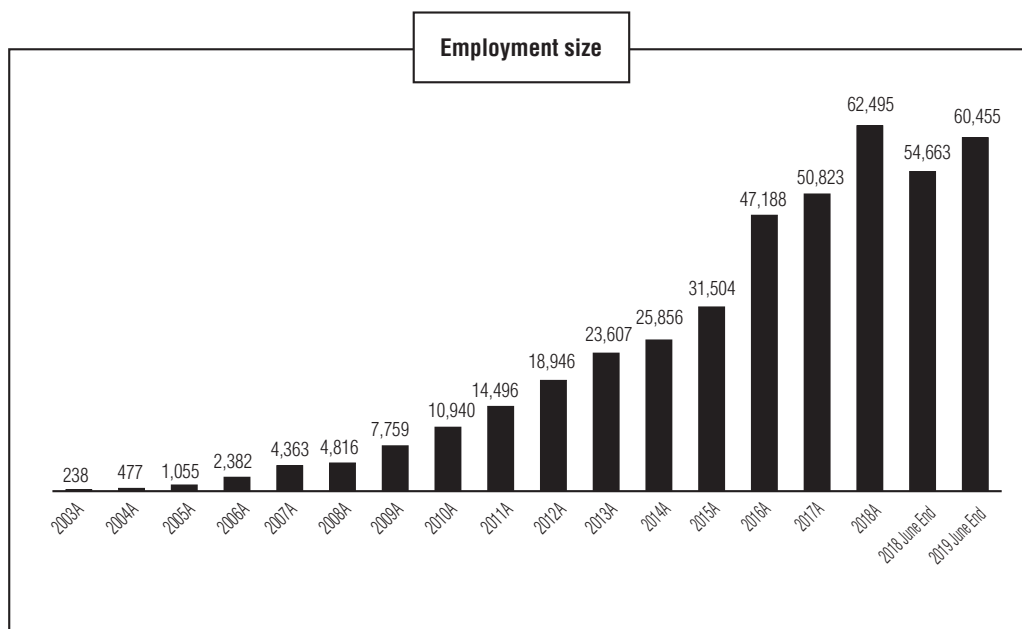
## Market

During the reporting period, the Group's main businesses were concentrated in the Greater China region. The huge market potential in the Greater China region continues to bring growth opportunities for the Group. The Group provides ITS to customers from 32 countries and number of Top 500 companies in the world, accumulating experiences in servicing international customers. Going with the "Belt and Road" initiative, the Group will combine and increase its cooperation with Huawei's products and industries to speed up its global layout. The Group will improve its existing centers in America, Japan, India, Malaysia, Singapore, Mexico, etc. The Group will utilize cloud driven digitalization services to promote global servicing layout, become a world class ITS enterprise, and build up China's influence in the global IT market.

## Human Resources

As of 30 June 2019, the Group employs a total of 60,455 employees, representing an increase of 10.6% YoY (2018H1: 54,663).

The Group's growth in employee size since listing on the Growth Enterprise Market in 2003 is as follows:



## Operating Results

The following is the Group's consolidated comprehensive income statement for the first half of 2018 and 2019 (unaudited):

	2019			2018		
	For the first half RMB'000	% of Revenue	% of Service Revenue	For the first half RMB'000	% of Revenue	% of Service Revenue
<b>Revenue</b>	<b>5,538,248</b>	<b>N/A</b>	<b>N/A</b>	4,813,853	N/A	N/A
Service Revenue	5,493,458	99.2%	N/A	4,770,267	99.1%	N/A
Cost of Sales and services	<u>(3,971,495)</u>	<u>(71.7%)</u>	<u>(72.3%)</u>	<u>(3,423,801)</u>	<u>(71.1%)</u>	<u>(71.8%)</u>
<b>Gross Profit</b>	<b>1,566,753</b>	<b>28.3%</b>	<b>28.5%</b>	1,390,052	28.9%	29.1%
Other income	60,498	1.1%	1.1%	18,945	0.4%	0.4%
Other gains or losses	(163)	0.0%	0.0%	3,737	0.1%	0.1%
Selling and distribution costs	(265,745)	(4.8%)	(4.8%)	(233,003)	(4.8%)	(4.9%)
Other expenses	(30,150)	(0.5%)	(0.5%)	(36,641)	(0.8%)	(0.8%)
Administrative expenses	(832,932)	(15.0%)	(15.2%)	(679,967)	(14.1%)	(14.3%)
Finance costs	(85,411)	(1.5%)	(1.6%)	(54,573)	(1.1%)	(1.1%)
Impairment losses, net of reversal	(12,326)	(0.2%)	(0.2%)	(145)	0.0%	0.0%
Share of results of investments accounted for using the equity method	(7,845)	(0.1%)	(0.1%)	(15,265)	(0.3%)	(0.3%)
Loss from derecognition of financial assets measured at amortised cost	<u>(2,497)</u>	<b>0.0%</b>	<b>0.0%</b>	<u>(4,717)</u>	(0.1%)	(0.1%)
Profit before taxation	<b>390,182</b>	<b>7.0%</b>	<b>7.1%</b>	388,423	8.1%	8.1%
Income tax expense	<u>(31,215)</u>	<u>(0.6%)</u>	<u>(0.6%)</u>	<u>(32,618)</u>	<u>(0.7%)</u>	<u>(0.7%)</u>
<b>Profit for the period</b>	<b><u>358,967</u></b>	<b>6.5%</b>	<b>6.5%</b>	<b><u>355,805</u></b>	7.4%	7.5%
<b>Profit attributable to owners of the Company</b>	<b><u>362,695</u></b>	<b>6.5%</b>	<b>6.6%</b>	<b><u>358,759</u></b>	7.5%	7.5%

## Revenue

For the first half of 2019, the Group's revenue was RMB5,538.248 million, representing a YoY growth of 15.0% (2018H1: RMB4,813.853 million). The Group's service revenue was RMB5,493.458 million, representing a YoY growth of 15.2% (2018H1: RMB4,770.267 million). The growth came mainly from the steady growth of core large customers, and the high growths of cloud intelligence businesses including cloud and big data.

For the first half of 2019, the segment's revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2019 RMB'000	% of Total	Six Months Ended 30 June 2018 RMB'000	% of Total	Growth Rate
Technical and Professional Services Group (TPG)	4,748,340	85.7%	4,029,252	83.7%	17.8%
Internet IT Services Group (IIG)	789,908	14.3%	784,601	16.3%	0.7%
Total	<u>5,538,248</u>	<u>100%</u>	<u>4,813,853</u>	<u>100%</u>	15.0%

For the first half of 2019, the segment's service revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2019 RMB'000	% of Total	Six Months Ended 30 June 2018 RMB'000	% of Total	Growth Rate
Technical and professional Services Group (TPG)	4,731,848	86.1%	4,011,444	84.1%	18.0%
Internet IT Services Group (IIG)	761,610	13.9%	758,823	15.9%	0.4%
Total	<u>5,493,458</u>	<u>100%</u>	<u>4,770,267</u>	<u>100%</u>	15.2%

## Cost of Sales and Services

For the first half of 2019, the Group's cost of sales and services was RMB3,971.495 million, representing a YoY increase of 16.0% (2018H1: RMB3,423.801 million). The Group's cost of sales and services was 71.7% of the Group's total revenue, representing a YoY increase of 0.6% (2018H1: 71.1%).

## **Gross Profit**

For the first half of 2019, the Group's gross profit was RMB1,566.753 million, representing a YoY growth of 12.7% (2018H1: RMB1,390.052 million). The Group's gross margin was 28.3%, representing a YoY decrease of 0.6% (2018H1: 28.9%). The Group's gross margin (to total service revenue) was 28.5%, representing a YoY decrease of 0.6% (2018H1: 29.1%). The reason for the decline in gross profit margin was due to the slight decline of gross profit margin from the Huawei business due to the increase in labour cost.

## **Other Income**

For the first half of 2019, the Group's other income was RMB60.498 million, representing a YoY increase of 219.3% (2018H1: RMB18.945 million). The reason for the increase is due to the increase in the Input VAT deductions during the reporting period and the increase in government subsidies over the same period last year.

## **Other Gains or Losses**

For the first half of 2019, the Group's other losses were RMB0.163 million, representing a YoY decrease of 104.4% (2018H1: other income RMB3.737 million). The main reason of this increase is because of the fluctuations in the exchange rate of the US dollar, Japanese yen, and Hong Kong dollar against the RMB during the reporting period.

## **Operating Expenses**

For the first half of 2019, the Group's selling and distribution expenses were RMB265.745 million, representing a YoY increase of 14.1% (2018H1: RMB233.003 million). The Group's selling and distribution expenses accounted for 4.8% of the revenue, the same ratio as the same period last year.

For the first half of 2019, the Group's administrative expense was RMB832.932 million, representing a YoY increase of 22.5% (2018H1: RMB679.967 million). The Group's administrative expense accounted for 15.0% of the revenue, representing a YoY increase of 0.9% (2018H1: 14.1%). The increase of the Group's administrative expense is because during the reporting period the Group increased its R&D in cloud intelligence business, resulting in the increase of R&D costs.

## **Finance Costs and Income Tax**

For the first half of 2019, the Group's finance costs were RMB85.411 million, representing a YoY increase of 56.5% (2018H1: RMB54.573 million). The Group's finance costs accounted for 1.5% of the revenue, representing a YoY increase of 0.4% (2018H1: 1.1%). The main reason for this increase is because during the reporting period 1) the Group adjusted its fund management strategy, starting to pay more attention to operating security and increased bank loans which led to an increase in interest expenses and 2) the new lease standard implemented on 1 January, 2019 which led to the increase of interest on the lease liability.



For the first half 2019, the loss from derecognition of financial assets measured at amortised cost was RMB2.497million (2018H1: RMB4.717 million), representing a YoY decrease of 47.1%.

For the first half of 2019, the Group's income tax was RMB31.215 million, representing a YoY decrease of 4.3% (2018H1: RMB32.618 million).

### **Other Non-Cash Expenses**

For the first half of 2019, the Group' other expenses was RMB30.150 million, representing a YoY decrease of 17.7% (2018H1: RMB36.641 million). The Group's other expenses accounted for 0.5% of the revenue, representing a YoY decrease of 0.3% (2018H1: 0.8%).

For the first half of 2019, the Group's impairment losses, net of reversal were RMB12.326 million (2018H1: RMB0.145 million), representing a YoY increase of 8400.7%. This is mainly due to the provision of bad debts according to the Group's accounts receivable and contract assets, resulting in a large difference from that of the same period of last year.

### **Profit for the Period and Earnings Per Share (EPS)**

For the first half of 2019, the Group's profit was RMB358.967 million, representing a YoY growth of 0.9% (2018H1: RMB355.805 million). The Group's profit accounted for 6.5% of the revenue, representing a YoY decrease of 0.9% (2018H1: 7.4%). The Group's profit accounted for 6.5% of the service revenue, representing a YoY decrease of 1.0% (2018H1: 7.5%).

For the first half of 2019, the Group's profit attributable to the owners of the Company was RMB362.695 million, representing a YoY growth of 1.1% (2018H1: RMB358.759 million).

Based on the profit attributable to the owners of the Company, the Group's EPS was RMB14.64 cents for the first half of 2019, representing a YoY decrease of 1.5% (2018H1: RMB14.87 cents).

## Segment Revenue and Results

For the first half of 2019, the segment's growth of revenue, service revenue and results are as follow:

	Revenue			Service Revenue			Results		
	Six Months Ended	Six Months Ended	Growth Rate	Six Months Ended	Six Months Ended	Growth Rate	Six Months Ended	Six Months Ended	Growth Rate
	30 June 2019 RMB'000	30 June 2018 RMB'000		30 June 2019 RMB'000	30 June 2018 RMB'000		30 June 2019 RMB'000	30 June 2018 RMB'000	
Technology Professional Services Group (TPG)	4,748,340	4,029,252	17.8%	4,731,848	4,011,444	18.0%	407,891	424,265	(3.9%)
Internet IT Services Group (IIG)	789,908	784,601	0.7%	761,610	758,823	0.4%	84,747	84,574	0.2%
<b>Total</b>	<b>5,538,248</b>	<b>4,813,853</b>	<b>15.0%</b>	<b>5,493,458</b>	<b>4,770,267</b>	<b>15.2%</b>	<b>492,638</b>	<b>508,839</b>	<b>(3.2%)</b>

In terms of segment revenue, TPG's revenue and service revenue achieved a YoY growth of 17.8% and 18.0%. The main growth came from the increase of revenue from core large customers including Huawei, Tencent, Alibaba, Ping-An, and etc.. IIG's revenue and service revenue achieved a YoY growth of 0.7% and 0.4%. This slowdown is because 1) the Group adjusted its business to focus on Government IT construction through "Cloud Integrative Service", 2) the layout of the Cloud Software Park is basically completed, causing a decline in revenue and 3) the Group moved its smart manufacturing business to an associated company, so the financial statements are no longer consolidated.

In terms of segment results, TPG's result decreased by 3.9% YoY. This decrease is due to the decrease of gross profit margins from the Huawei business. IIG's result achieved a YoY growth of 0.2%, maintaining the same level as that of last year.

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

## Fundraising Activities

During the current and last interim period, no fund raising activities had been conducted by the Group.

## INTERIM RESULTS

The board of Directors (the “Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 with corresponding figures as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June	
	Notes	2019 RMB'000	2018 RMB'000
Revenue	3	5,538,248	4,813,853
Cost of sales and services		<u>(3,971,495)</u>	<u>(3,423,801)</u>
Gross profit		1,566,753	1,390,052
Other income		60,498	18,945
Other gains or losses		(163)	3,737
Selling and distribution costs		(265,745)	(233,003)
Other expenses		(30,150)	(36,641)
Administrative expenses		(832,932)	(679,967)
Finance costs	4	(85,411)	(54,573)
Impairment losses, net of reversal		(12,326)	(145)
Share of results of investments accounted for using the equity method		(7,845)	(15,265)
Loss from derecognition of financial assets measured at amortised cost		<u>(2,497)</u>	<u>(4,717)</u>
Profit before taxation		390,182	388,423
Income tax expense	5	<u>(31,215)</u>	<u>(32,618)</u>
Profit for the period		<u>358,967</u>	<u>355,805</u>
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		<u>(7,226)</u>	<u>(1,867)</u>
Total comprehensive income for the period		351,741	353,938
Profit for the period attributable to:			
Owners of the Company		362,695	358,759
Non-controlling interests		<u>(3,728)</u>	<u>(2,954)</u>
		<u>358,967</u>	<u>355,805</u>

		<b>For the six months ended 30 June</b>	
		<b>2019</b>	2018
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Total comprehensive income attributable to:			
Owners of the Company		<b>355,469</b>	356,892
Non-controlling interests		<b>(3,728)</b>	(2,954)
		<u><b>351,741</b></u>	<u>353,938</u>
Earnings per share	7		
– Basic (cents)		<u><b>14.64</b></u>	<u>14.87</u>
– Diluted (cents)		<u><b>14.31</b></u>	<u>14.00</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June 2019 <i>RMB'000</i>	(Audited) 31 December 2018 <i>RMB'000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		<b>855,439</b>	837,634
Intangible assets		<b>136,529</b>	148,172
Goodwill		<b>1,006,337</b>	1,006,337
Investments accounted for using the equity method		<b>178,435</b>	144,280
Right-of-use assets		<b>279,552</b>	–
Equity instrument at fair value through other comprehensive income		<b>59,754</b>	51,508
Prepaid lease payments		–	37,003
Deferred tax assets		<b>7,893</b>	8,675
Other receivable		<b>48,030</b>	29,935
		<b><u>2,571,969</u></b>	<u>2,263,544</u>
<b>Current assets</b>			
Inventories		<b>132,848</b>	63,698
Trade and other receivables	8	<b>3,366,398</b>	2,585,247
Bills receivable		<b>37,654</b>	22,212
Prepaid lease payments		–	860
Contract assets		<b>2,575,798</b>	2,819,117
Amount due from related companies		<b>82,698</b>	67,765
Pledged deposits		<b>204,640</b>	19,426
Bank balances and cash		<b>2,324,029</b>	2,646,375
		<b><u>8,724,055</u></b>	<u>8,224,700</u>
<b>Current liabilities</b>			
Trade and other payables	9	<b>984,079</b>	1,497,011
Bills payable		<b>16,116</b>	45,280
Contract liabilities		<b>144,430</b>	166,078
Amounts due to related companies		<b>18,839</b>	18,185
Dividend payable to shareholders		<b>82</b>	81
Taxation payable		<b>143,477</b>	125,174
Borrowings	10	<b>2,540,724</b>	1,675,646
Convertible loan notes		–	198,263
Lease liabilities		<b>4,400</b>	–
		<b><u>3,852,147</u></b>	<u>3,725,718</u>
<b>Net current assets</b>		<b><u>4,871,918</u></b>	<u>4,498,982</u>

	(Unaudited) 30 June 2019 <i>Notes</i> <b>RMB'000</b>	(Audited) 31 December 2018 <i>RMB'000</i>
Total assets less current liabilities	<u>7,443,887</u>	<u>6,762,526</u>
Non-current liabilities		
Deferred tax liabilities	10,268	11,062
Lease liabilities	243,879	—
Convertible loan notes	<u>729,517</u>	<u>719,941</u>
	<u>983,664</u>	<u>731,003</u>
	<u>6,460,223</u>	<u>6,031,523</u>
Capital and reserves		
Share capital	<i>11</i> 116,483	112,994
Share premium	3,149,347	2,982,319
Treasury shares	(154,267)	(76,451)
Reserves	<u>3,055,589</u>	<u>2,948,128</u>
Equity attributable to equity holders of the Company	<u>6,399,418</u>	5,966,990
Non-controlling interests	<u>60,805</u>	<u>64,533</u>
Total equity	<u>6,460,223</u>	<u>6,031,523</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Attributable to the owners of the Company

	Share capital	Share premium	Treasury shares	Other reserves	Fair value through other comprehensive income reserve	Translation reserve	Equity-settled share-based payment reserve	Convertible loan notes reserve	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve fund	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 period	-	-	-	-	-	-	-	-	-	-	-	358,759	358,759	(2,954)	355,805
Other comprehensive (expenses) income for the period	-	-	-	-	-	(1,867)	-	-	-	-	-	-	(1,867)	-	(1,867)
Total comprehensive (expenses) income for the year period	-	-	-	-	-	(1,867)	-	-	-	-	-	358,759	356,892	(2,954)	353,938
Issue of ordinary shares upon exercise of share options	61	4,635	-	-	-	-	(733)	-	-	-	-	-	3,963	-	3,963
Recognition of share option expenses	-	-	-	-	-	-	25,816	-	-	-	-	-	25,816	-	25,816
Conversion of convertible loan notes	1,050	61,962	-	-	-	-	-	-	-	-	-	-	63,012	-	63,012
Dividends paid to ordinary shareholders	-	(36,873)	-	-	-	-	-	-	-	-	-	-	(36,873)	-	(36,873)
At 30 June 2018	111,394	2,839,053	-	(122,769)	-	(33,341)	241,213	124,174	15,793	26,749	147,455	2,196,388	5,546,109	61,211	5,607,320
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
Impact of initial application of HKFRS 16	-	-	-	-	-	-	-	-	-	-	-	(6,556)	(6,556)	-	(6,556)
Adjusted balance at 1 January 2019	112,994	2,982,319	(76,451)	(122,769)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,969	2,513,362	5,960,434	64,533	6,024,967
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	362,695	362,695	(3,728)	358,967
Other comprehensive (expenses) income for the period	-	-	-	-	-	(4,742)	-	-	-	-	-	-	(4,742)	-	(4,742)
Total comprehensive income (expenses) for the period	-	-	-	-	-	(4,742)	-	-	-	-	-	362,695	357,953	(3,728)	354,225
Recognition of share option expenses	-	-	-	-	-	-	6,339	-	-	-	-	-	6,339	-	6,339
Convertible loan notes	3,489	215,150	-	-	-	-	-	(18,009)	-	-	-	-	200,630	-	200,630
Dividends paid to ordinary shareholders	-	(48,122)	-	-	-	-	-	-	-	-	-	-	(48,122)	-	(48,122)
Purchase of shares under share award scheme	-	-	(77,816)	-	-	-	-	-	-	-	-	-	(77,816)	-	(77,816)
At 30 June 2019	116,483	3,149,347	(154,267)	(122,769)	(13,834)	(16,833)	241,444	100,279	15,793	26,749	180,969	2,876,057	6,399,418	60,805	6,460,223

**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net cash used in operating activities	<b>(582,936)</b>	(868,958)
Net cash used in investing activities	<b>(379,947)</b>	(141,880)
Net cash generated from financial activities	<b>634,634</b>	173,283
Net decrease in cash and cash equivalents	<b>(328,249)</b>	(837,555)
Effect of foreign exchange rate changes	<b>5,903</b>	(1,146)
Cash and cash equivalents at the beginning of the period	<b>2,646,375</b>	1,785,305
Cash and cash equivalents at the end of the period	<b>2,324,029</b>	946,604



## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at their fair values.

The accounting policies used in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as at 1 January 2019.

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current interim period.

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRS 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 amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### 2.1 Summary of effects arising from initial application of HKFRS 16

HKFRS 16 Leases introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Lease and the related interpretations when it becomes effective for annual periods beginning on or after 1 January 2019

The Group has implemented the new lease standards since 1 January 2019, and the accounting treatment has been conducted in accordance with the regulation in the transition period as required by the new lease standards. 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 applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group has not reassessed whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the right-of-use assets and the corresponding liabilities in respect of all these leases unless they qualify for low value or short-term leases; based on the cumulative effect of initial application of the new lease standards, adjust the opening balance of retained earnings and the amount of other relevant items in financial statements at the beginning of the year (in which this standard was first applied), and not adjust the information of the comparative period.

	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	365,556
Lease liabilities discounted at relevant incremental borrowing rates and relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	232,920
Analysed as:	
Current	–
Non-current	232,920
	<u>232,920</u>
	<u><u>232,920</u></u>

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

	<b>Right-of-use Asset</b> <i>RMB'000</i>
Right-of-use assets relating to operating leases	
– upon application of IFRS 16	229,051
Reclassified from land lease prepayments (note)	37,863
	<u>266,914</u>
	<u><u>266,914</u></u>
By class:	
buildings	229,051
Land lease prepayments	37,863
	<u>266,914</u>
	<u><u>266,914</u></u>

*Note:*

Upfront payments for leasehold lands in the PRC were classified as Prepaid lease prepayment as at 31 December 2018. Upon application of IFRS 16, the prepaid lease payments amounting to RMB37,863,000 was reclassified to right-of-use assets.

## 2.2 Impacts on consolidated statement of financial position arising from the application of all new standards and related amendments

The following table summarise the impacts of applying HKFRS 16 on the Group's consolidated statement of financial position as at 1 January 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

	<b>31 December 2018 Carrying Value (Audited) RMB'000</b>	<b>Impacts arising from the application of HKFRS 16 RMB'000</b>	<b>1 January 2019 Carrying Value under HKFRS 16 (Unaudited) RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	837,634	2,078	839,712
Right-of-use assets	–	266,914	266,914
Prepaid lease payments	37,003	(37,003)	–
Other receivables	29,935	15,150	45,085
<b>Current assets</b>			
Prepaid lease payments	860	(860)	–
Trade and other receivables	2,585,247	(25,291)	2,559,956
<b>Current Liabilities</b>			
Trade and other payables	1,497,011	(5,376)	1,491,635
<b>Non-current liabilities</b>			
Lease liabilities	–	232,920	232,920
<b>Capital and reserves</b>			
Reserves	2,948,128	(6,556)	2,941,572

### 2.3 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly and implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the assets; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At the inception of a contract that contains a lease component or when such contract is reassessed, the Group should allocate the consideration in the contract to each lease component on the basis of their relative standalone price.

As a lessee, the Group, recognises a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which consists of the amount of the initial measurement of the lease liability with adjustments to any lease payments made to the lessor at or before the commencement date, plus any initial direct costs incurred, and the estimate of costs to be incurred in dismantling and removing the underlying asset, or restoring the underlying asset or the site on which it is located to the required condition, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis starting from the commencement date, over the shorter of the estimated useful life of the right-of-use assets and the lease term. The estimated useful life of a right-of-use asset is determined on the same basis as the estimated useful life of property and equipment. Subsequently, any impairment loss should be deducted periodically from the right-of-use assets, and adjustments should be made for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, discounted using the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the lessee is reasonably certain to exercise; and
- amounts paid for termination of a lease, if the lease term is allowed to terminate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### **Short-term leases and leases of low-value assets**

The Group has elected not to recognise the right-of-use assets and the lease liabilities for short-term leases of property that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line method over the lease term.

#### **Refundable rental deposits paid**

The Group's refundable rental deposits paid are payments not relating to the right to use the underlying assets, accordingly, the carrying amounts of the abovementioned deposits may be adjusted to amortised costs. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustment to refundable rental deposits received would be considered as advance lease payments.

#### **Statement of cash flows**

For the classification of cash flows, lease payments in relation to lease liability will be allocated by the Group into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

### 3. REVENUE AND SEGMENT INFORMATION

#### Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Nature of goods and services		
Provision of services		
Project-based development services	1,904,944	2,370,232
Outsourcing services	3,577,762	2,379,128
Others	10,752	20,907
	<u>5,493,458</u>	<u>4,770,267</u>
Sales of software and hardware products	44,790	43,586
	<u>5,538,248</u>	<u>4,813,853</u>
	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
Over time	5,493,458	4,770,267
At a point in time	44,790	43,586
	<u>5,538,248</u>	<u>4,813,853</u>

Revenue represents the net amounts received and receivable for goods sold and services rendered during the period.

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers 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.

Information regarding the above segments is reported as below.

### Segment revenue and results

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

	For the six months ended 30 June			
	Segment revenue		Segment results	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Technical professional services group (TPG)	<b>4,748,340</b>	4,029,252	<b>407,891</b>	424,265
Internet IT services group (IIG)	<b>789,908</b>	784,601	<b>84,747</b>	84,574
	<b>5,538,248</b>	4,813,853	<b>492,638</b>	508,839

During the six months ended 30 June 2019, the segment revenue is reported after eliminating inter-segment services revenue of RMB303,903,000 (2018: RMB248,651,000).

Reconciliation of segment results to profit before taxation:

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	<b>492,638</b>	508,839
Other income, gains and losses	<b>1,032</b>	4,468
Effective interest on convertible loan notes	<b>(25,211)</b>	(31,729)
Corporate expenses	<b>(71,938)</b>	(67,339)
Share option expenses	<b>(6,339)</b>	(25,816)
Profit before taxation	<b>390,182</b>	388,423

Segment revenue by products and services:

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Sales of software and hardware products	<u>44,790</u>	<u>43,586</u>
Technical professional services group (TPG)	<b>4,731,848</b>	4,011,444
Internet IT services group (IIG)	<u>761,610</u>	<u>758,823</u>
	<u>5,493,458</u>	<u>4,770,267</u>
	<u><b>5,538,248</b></u>	<u>4,813,853</u>

#### 4. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest on borrowings wholly repayable within five years	<b>55,183</b>	22,844
Interest of lease liability	<b>5,014</b>	–
Effective interest on convertible loan notes	<u>25,214</u>	<u>31,729</u>
	<u><b>85,411</b></u>	<u>54,573</u>

#### 5. TAXATION

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Tax charge comprises:		
PRC Enterprise Income Tax	<b>31,326</b>	32,568
The US Federal and State Income taxes	<u>(111)</u>	<u>50</u>
	<u><b>31,215</b></u>	<u>32,618</u>

PRC Enterprise Income Tax is calculated at the rates prevailing in relevant districts of the PRC.

Taxation for other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.



## 6. DIVIDEND

During the six months ended 30 June 2019, a final dividend of HK\$0.0215 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2018 (2017: HK\$0.018) was declared to the owners of the Company. The aggregate amount of the final dividend declared during the six months ended 30 June 2019 amounted to HK\$54,702,608 (2018: HK\$43,735,908).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2019 (2018: Nil).

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Earnings for the purposes of calculating basic earnings per share	362,695	358,759
Effect of dilutive potential profit attributable to owners of the Company:		
Interest on convertible loan notes	25,214	31,729
Earnings for the purpose of diluted earnings per share	387,909	390,488
	Number of shares	
	2019	2018
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,477,225,732	2,412,721,285
Effect of dilutive potential ordinary shares:		
Share options	25,525,194	101,948,279
Convertible loan notes	208,009,144	274,225,631
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,710,760,070	2,788,895,195

The computation of diluted earnings per share for the period ended 30 June 2019 did not assume the exercise of the Company's share options granted on 21 September 2017 and 28 September 2018 since the exercise prices of these share options were higher than the average market price of shares of the Company.

The computation of diluted earnings per share for the period ended 30 June 2018 assume the exercise of all of the Company's share options granted since the exercise prices of all these share options were lower than the average market price of shares of the Company.

## 8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2019 <i>RMB'000</i>	(Audited) 31 December 2018 <i>RMB'000</i>
Trade receivables, net of allowance	2,895,261	2,139,753
Advances to suppliers	175,941	193,787
Deposits, prepayments and other receivables, net of allowance	<u>343,226</u>	<u>281,642</u>
	<u><b>3,414,428</b></u>	<u><b>2,615,182</b></u>
Analysed for reporting purposes as:		
Non-current assets	48,030	29,935
Current assets	<u>3,366,398</u>	<u>2,585,247</u>
	<u><b>3,414,428</b></u>	<u><b>2,615,182</b></u>

Included in the non-current assets are other receivables representing deposits made in connection with an acquisition of an office building located in the PRC and the refundable lease deposit for the rental office.

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:

	(Unaudited) 30 June 2019 <i>RMB'000</i>	(Audited) 31 December 2018 <i>RMB'000</i>
Within 90 days	2,213,402	1,681,131
Between 91 – 180 days	400,856	246,074
Between 181 – 365 days	219,889	168,267
Between 1 – 2 years	61,114	44,281
Over 2 years	<u>–</u>	<u>–</u>
	<u><b>2,895,261</b></u>	<u><b>2,139,753</b></u>

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.

## 9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2019 <i>RMB'000</i>	(Audited) 31 December 2018 <i>RMB'000</i>
Trade payables	481,146	639,678
Other payables	502,933	857,333
	<u>984,079</u>	<u>1,497,011</u>

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

	(Unaudited) 30 June 2019 <i>RMB'000</i>	(Audited) 31 December 2018 <i>RMB'000</i>
Within 90 days	425,005	564,584
Between 91-180 days	14,771	5,620
Between 181-365 days	12,028	8,113
Between 1-2 years	15,756	35,431
Over 2 years	13,586	25,930
	<u>481,146</u>	<u>639,678</u>

The average credit period on purchases of goods 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.

The fair value of the Group's trade and other payables at 30 June 2019 was approximately equal to the corresponding carrying amount.

## 10. BORROWINGS

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Unsecured bank loans ( <i>Note (i)</i> )	2,202,724	1,673,873
Secured bank loans ( <i>Note (ii)</i> )	<u>338,000</u>	<u>1,773</u>
	<u><b>2,540,724</b></u>	<u><b>1,675,646</b></u>
	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Carrying amount repayable:		
Within one year	2,540,724	1,675,646
More than one year within five years	<u>–</u>	<u>–</u>
	<b>2,540,724</b>	1,675,646
Less: Amounts due within one year shown under current liabilities	<u>(2,540,724)</u>	<u>(1,675,646)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>
	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Total borrowings		
At floating interest rates ( <i>Note (iii)</i> )	765,000	330,000
At fixed interest rates ( <i>Note (iv)</i> )	<u>1,775,724</u>	<u>1,345,646</u>
	<u><b>2,540,724</b></u>	<u><b>1,675,646</b></u>

Notes:

- (i) Guaranteed by the Company and certain subsidiaries of the Company.
- (ii) Bill receivables with a net carrying value of RMB338,000,000 (2018: trade receivables of RMB1,773,000) are pledged 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 first half year of 2019 is 4.70% (2018: 4.76%) per annum.
- (iv) Interests on fixed rates borrowings are charged at interest rates ranged from 4.02% to 5.22% (2018: 4.35% to 5.22%)

## 11. SHARE CAPITAL

### Ordinary shares of HK\$0.05 each:

	Number of shares	Nominal amount HK\$
<b>Authorised</b>		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	4,000,000,000	200,000,000
	<b>Number of shares</b>	<b>Nominal amount HK\$</b>
		<b>Amount shown in the financial statements RMB'000</b>
<b>Issued and fully paid</b>		
At 31 December 2017 and 1 January 2018	2,402,274,436	120,113,722
Exercise of options	1,500,000	75,000
Conversion of convertible loan notes	25,998,230	1,299,912
At 30 June 2018	2,429,772,666	121,488,634
At 31 December 2018 and 1 January 2019	2,466,312,666	123,315,634
Conversion of convertible loan notes	77,994,692	3,899,735
At 30 June 2019	2,544,307,358	127,215,369

## 12. CAPITAL COMMITMENTS

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	–	17,686
– investment in entity accounted for using equity method	93,300	113,100
	<u>93,300</u>	<u>113,100</u>
	<u>93,300</u>	<u>130,786</u>

## 13. RELATED PARTY TRANSACTIONS

During the relevant periods in 2018 and 2019, the Group had the following transactions with the following related parties:

	For the six month ended 30 June	
	2019 RMB'000	2018 RMB'000
Provision of IT outsourcing services by the Group	–	1,707
Provision of IT solution services by the Group	549	22
	<u>549</u>	<u>22</u>

The Directors are of the opinion that the above transactions were conducted under normal commercial terms in the usual course of business of the Company.

## 14. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB4,385,867,000, including the directors' emoluments of approximately RMB6,734,000 during the six months ended 30 June 2019 (2018: approximately RMB3,379,551,000, including the directors' emoluments of approximately RMB8,686,000). The increase in employee remuneration resulted from the increase in the number of employees from 54,663 to 60,455.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2019 of the Group amounted to approximately RMB30,150,000 (2018: RMB36,641,000) and approximately RMB119,057,000 (2018: RMB57,185,000), respectively.

## **THE CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 June 2019, 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 30 June 2019, except for the following deviations as explained:

- (i) The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1 of the CG Code). Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and 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.
- (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 2018 (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.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rule relating to dealings in securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 30 June 2019.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 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 of listed issuers.

### 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	approximate % of the issued ordinary share capital as at 30 June 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 exercised during the period	No. of share options outstanding as at 30 June 2019	Percentage of total issued ordinary share capital of the Company as at 30 June 2019	No. of underlying ordinary shares interested in	Percentage of total issued ordinary share capital of the Company as at 30 June 2019	Note
Gavriella Schuster	5.22	1,000,000	-	1,000,000	0.04%	1,000,000	0.04%	(1)

Note:

- (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 30 June 2019, none of the Directors or chief executive of the Company had any interests or shorts 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 provision 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 issues as referred to the Model Code, to be Company and the Stock Exchange.

## SHARE OPTION SCHEME

As at 30 June 2019, pursuant to the new share option scheme approved by the shareholders at the AGM held on 20 May 2013 (the “New Share Option Scheme”), the share options to subscribe for an aggregate of 235,960,000 Shares granted to certain Directors, employees and suppliers of the Group were outstanding representing 9.27% of the total issued ordinary share capital of the Company as at 30 June 2019.

During the six months ended 30 June 2019, no share options were exercised, granted and lapsed under the New Share Option Scheme.

## **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.

During the period ended 30 June 2019, a total consideration of approximately HK\$88,958,000 has been used to acquire 24,552,000 shares of the Company from open market by the independent trustee of the Company. As at 30 June 2019, an aggregate of 46,630,000 shares of the Company has been acquired from open market by the independent trustee of the Company, representing 1.83% of the total issued ordinary share capital of the Company as at 30 June 2019. As of the date of this report, no shares have been granted to any selected employees of the Group under the Share Award Scheme.

## **DIRECTORS’ RIGHTS TO ACQUIRE SHARES**

Save as disclosed above, during the six months ended 30 June 2019 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2019 none of the Directors had any rights to acquire shares in the Company.

## **REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS**

During the six months ended 30 June 2019, the Company had adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rules relating to dealings in securities. Having made specific enquiry with all the Directors, the Directors had complied with the Model Code regarding securities transactions during the six months ended 30 June 2019.

## SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2019, the following persons (not being a Director or chief executive of the Company) had interests or short position 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 ( <i>Note 1</i> )	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 ( <i>Note 1</i> )	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 ( <i>Note 2</i> )	Person having a security interest in shares	7,936,071 (L)	0.31%	0.29%
	Interest of controlled corporations	236,884,245 (L)	9.31%	8.70%
	Interest of controlled corporations	46,560,106 (S)	1.83%	1.71%
Prime Partners Development Limited ( <i>Note 3</i> )	Beneficial interest	140,572,725 (L)	5.52%	5.16%
Milestones Asset Management Limited ( <i>Note 4</i> )	Interest of controlled corporations	134,630,690 (L)	5.29%	4.94%
CSI Profit Share Scheme SPC – Phase One SP ( <i>Note 4</i> )	Beneficial interest	134,630,690 (L)	5.29%	4.94%
OP Investment Management Limited ( <i>Note 4</i> )	Investment manager	134,630,690 (L)	5.29%	4.94%
JPMorgan Chase & Co ( <i>Note 5</i> )	Interest of controlled corporations	37,997,761 (L)	1.49%	1.39%
	Interest of controlled corporations	44,462,971 (S)	1.75%	1.63%
	Investment manager	2,712,000 (L)	0.11%	0.10%
	Person having a security interest in shares	1,076,400 (L)	0.04%	0.04%
	Approved lending agent	85,961,131 (P)	3.38%	3.16%

\* 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  
“P” stands for a lending pool*

*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 Financial Services Inc., UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) 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 244,820,316 shares and short positions of 46,560,106 shares in the Company held by these companies. Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 18 June 2019 for further details of the shareholding structure.
- (3) 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.
- (4) Milestones Asset Management Limited (“Milestones”) is deemed to be interested in 134,630,690 ordinary shares in the Company through its interest in the entire issue of management shares in CSI Profit Share Scheme SPC – Phase One SP (“the Profit Share Fund”). The Profit Share Fund is an employee owned fund comprises the Company’s management and core talents. Milestones has delegated the investment management of the Profit Share Fund to OP Investment Management Limited.
- (5) Such long position includes derivative interests in 33,205,572 underlying shares of the Company of which 11,572,000 underlying shares are derived from unlisted and physically settled derivatives, 21,633,572 underlying shares are derived from unlisted and cash settled derivatives.

Such short position includes derivative interests in 23,336,224 underlying shares of the Company of which 16,768,000 underlying shares are derived from listed and cash settled derivatives, 6,522,224 underlying shares are derived from unlisted and physically settled derivatives and 46,000 underlying shares are derived from unlisted and cash settled derivatives.

Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 18 June 2019 for further details of the shareholding structure.

Save as disclosed above, as at 30 June 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.

## **COMPETING INTERESTS**

As at 30 June 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.

## **AUDIT COMMITTEE**

The Company established an audit committee on 2 June 2003 and amended its written terms of reference in compliance with the requirements as set out in the CG Code of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group.

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 Guangrong as the members of the Audit Committee.

The Audit Committee has reviewed the Group's interim result for the six months ended 30 June 2019 in compliance with Rule 3.21 of the Listing Rules, and the relevant code provisions of the CG Code of the Listing Rules and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that the interim result for the six months ended 30 June 2019 have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim report.

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

During the period ended 30 June 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 24,552,000 shares of the Company at a total consideration of approximately HKD88,958,000.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float for the six months ended 30 June 2019.

On behalf of the Board

**Dr. Chen Yuhong**

*Chairman and Chief Executive Officer*

19 August 2019, Hong Kong

*As at the date of this announcement, the Board comprises two executive Directors, namely Dr. Chen Yuhong (Chairman and Chief Executive Officer) and Dr. Tang Zhenming, three non-executive Directors, namely Dr. Zhang Yaqin, Mr. Gao Liangyu and Ms. Gavriella Schuster, and three independent non-executive Directors, namely Mr. Zeng Zhijie, Dr. Lai Guanrong and Professor Mo Lai Lan.*

\* *For identification purposes only*