ANNUAL REPORT 2017

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
Mr. Samuel Thomas Goodner

Independent non-executive Directors

Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Lai Guanrong

REMUNERATION COMMITTEE

Dr. Leung Wing Yin Patrick *(Chairman)*
Dr. Chen Yuhong
Mr. Zeng Zhijie
Dr. Lai Guanrong

AUDIT COMMITTEE

Dr. Leung Wing Yin Patrick *(Chairman)*
Mr. Zeng Zhijie
Dr. Lai Guanrong

NOMINATION COMMITTEE

Dr. Leung Wing Yin Patrick *(Chairman)*
Dr. Chen Yuhong
Mr. Zeng Zhijie
Dr. Lai Guanrong

COMPANY SECRETARY

Ms. Leong Leung Chai Florence

AUTHORISED REPRESENTATIVES

Dr. Chen Yuhong
Ms. Leong Leung Chai Florence

AUDITOR

Deloitte Touche Tohmatsu

WEBSITE

www.chinasofti.com

STOCK CODE

SEHK Code: 0354

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O.Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Garnd Cayman, KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
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.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

North Wing 12/F, Raycom Infotech Park Tower C
No. 2 Kexuiyuan Nanlu, Haidian District
Beijing, 100190, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4607-8, 46th Floor
COSCO Tower
No. 183 Queen's Road Central
Hong Kong

Dear investors,

In 2017, the Company has achieved growth for 14 consecutive years since its listing and became the largest software service provider in China.

During the annual conference for our core talents that just ended a short while ago, we came up with the slogan and the action of "thought alignment, language unity, and action consistency", and set the goal to "create and share, to become the leading global ITS provider." We set a "small goal" to reach RMB100 billion in revenue by 2026. We first mentioned the idea of "thought alignment, language unity, and action consistency" in 2014, which were directed at the "five cards" of the Company's development. Today, the Company has reached the revenue scale of RMB10 billion and is moving towards our mid to long term goals. The requirement has become more urgent and necessary, and we need a methodological approach that is easy to understand, easy to adhere to, regularly deliberate, and publish conclusions to track our blueprint progresses. My colleagues and management team are constantly learning and doing, and we will continue to finish the blueprint and the work that we have started.

During the reporting period, we have made three major progresses:

1. TOOK A PROACTIVE PERSPECTIVE AND PENETRATED THE LOCAL GOVERNMENT AND ENTERPRISE MARKET

In 2017, one of the biggest gains of the Company was a breakthrough in the penetration of regional government and enterprise market across China, which laid the foundation for the Company's absolute success in China's market. Traditionally, Chinasoft International serves large customers and have a high concentration of large customers. To achieve absolute success in China's market, we must penetrate the regional markets and establish our presence there. "The camel turned into the lion and launched an active attack". Since April, the Company has begun to build sales representative offices throughout the country and set up government and enterprise departments in 19 regions in China. Since signing the first partnership agreement with Huawei Cloud in July, we fully and closely cooperated with Huawei representatives in different regions, worked with the excellent sales forces to learn the excellent sales system of Huawei, developed methods with the Company's characteristics and built benchmarks in different regions and fields. In 2018, we will take advantage of the nationwide distribution to promote regional government and enterprise market operations.

2. TOOK ADVANTAGE OF "SAILING ON THE SAME BOAT STRATEGIC COOPERATION" HEADWIND TO BUILD JOINTFORCE REGIONAL OPERATION BASE

During the reporting period, Jointforce, working with Huawei, has developed and launched a cloud software parks service system platform, and settled in 15 cities such as Qingdao, Nanjing, Xi'an, Wuhan, Hefei and Chongqing to help local governments support local IT enterprises, gather software service ecosystem, enhance the efficiency of local software industry, and support transformation and upgrading and innovation development of traditional enterprises. The cloud software parks has become the vehicle of Jointforce in the offline and online integration services of various famous and featured software cities. The supporting local operation team of Jointforce has built the regional operation base covering the key software cities.

To serve the transformation of traditional enterprises, software enterprises should start from their own transformation. Based on the Huawei software development cloud, the Company developed different levels of cloud services to enable software enterprises in the software parks to transform from ISV (independent software provider) to CSV (cloud software provider). The software service companies in the region have also developed greater stickiness with Jointforce.

To serve the transformation of traditional enterprises, it's necessary to seize the historical opportunity of "China's Manufacturing 2025", helping to boost the further integration and transformation and upgrading of the manufacturing industry. During the reporting period, the Company has been working with Huawei to jointly launch the intelligent cloud solution, which has been settled in Kunshan, Xuzhou, Chongqing and etc. Based on the Jointforce regional operation base, the industry cloud solution can solve the problem of IT consumption imbalance and not in-depth integration, so that enterprises of different sizes enjoy the IT services of the same quality. In the target area, we worked with the government to build the intellectual research institute or enabling center, starting from providing industrial diagnostic services, observing the enterprise closely and truly touching the needs of the enterprise. Through observing different region's manufacturing industry, we are able to provide different levels of IT services base on the different needs in different regions. As to the leading enterprises with revenue over RMB10 billion, we use the Company's powerful application and development management ability to help customers undergo digital transformation and help their industrial Internet planning and development. As to the enterprises of with revenue in the hundreds of millions of RMB, we use local cloud software parks platform and partner ecosystem to provide inclusive IT services. As to the enterprises with revenue RMB10 million or less, we provide digital gardening service via Jointforce for them.

Chinasoft International will make use of Jointforce platform services and partner ecosystem to become the core integrator of China's manufacturing 2025 through the whole process of service manufacturing enterprises from informatization to in-depth informatization, to industrial integration, and then to intelligent manufacturing and industrial Internet.

3. BUILT THE GOVERNMENT SOFTWARE PROCUREMENT INTERNET+ TRADING PLATFORM BASED ON JOINTFORCE

During the reporting period, Jointforce has gathered more than 300,000 engineers, nearly 10 thousand service providers, and more than 30,000 contracting companies, with the contract value amount of more than RMB1.3 billion. Our understanding of Jointforce as a platform and its business design (model) are always changing, and we will continue to improve and better Jointforce. Jointforce was originally designed for "liberating" developers. Later, the membership model launched, and it was designed to liberate the suppliers. Now it seems that we need to liberate the contracting companies so that they can enjoy faster, better and cheaper IT services and the best cost to quality performance. Upon understanding this, we have made new attempts in the business model and made breakthroughs. Jointforce signed a strategic cooperation agreement with Nanjing Municipal Government to spend five years in building an internet-based government software procurement platform, gather 1 million engineers, produce RMB100 billion online turnover, namely 1+100+1000, fully connect and move software and services transactions to the Jointforce.

Dear investors, last year we held the "First Global Programmer's Festival" in Xi 'an. The theme is "Coding the Future". This year is the second year. We have set the theme to "Coding the Society". The future society is a society of program. No matter how big and strong the Chinese digital economy is, it is a software, programming, and algorithm driven economy. It is the economy built by 6 million Chinese programmers and 30,000 major software enterprises. Believing in the strength of the program and uniting the power of programmers, Jointforce is to become the backbone platform force of China's digital economic development. Our road ahead has become wider and more open.

In 2017, the Company's cloud computing, Jointforce and other new businesses have increased rapidly, earning more than RMB1 billion. These new businesses have been relatively solid. In 2018, we will separately show the new businesses' revenue, showing our confidence in the new businesses.

The Ministry of Industry and Information Technology has proposed to incubate software enterprises help them grow to revenue scale of RMB100 billion. As the first software service company reaching RMB10 billion in revenue, we do not decline to shoulder this responsibility! This goal is also consistent with our long-term plan of "achieving RMB100 billion in 8 years". The enterprises of RMB100 billion scale will be ranked the top ten in the world. There will certainly be a place for us!

Under the guidance of RMB100 billion Vision, achieving the annual revenue of RMB30 billion in 2021 is our current critical mission. The battle will be carried out in the following six aspects: upgrade the business of large customers, become a comprehensive strategic partner of ADM (Application Development Management) and TT (migration and transformation); strengthen the precipitation and output of professional service capacity of the major customers, leverage the government to promote the development of digital economy historical opportunity, and accomplish the absolute success of Jointforce; build the company's basic cloud service and industry cloud service platform to achieve the absolute success of cooperation with Huawei; win the trust of the state and related departments to become the national partner; build a process IT system that supports business development of RMB100 billion scale; and build a culture, core talents and human resource system supporting these "three armies".

Dear investors, thank you very much for your support to the Company's growth. We are not just dreamers, but action taking go-getters with the spirit of working steadily. "Experienced, professional, expert in transformation, and using platform and ecology", "develop applications in the best way, find and go to Jointforce!" is the brand commitment of Chinasoft International to customers, which is guiding our business practice every day.

We are at new starting point since crossing over the RMB10 billion in revenue, and we are reminded of our original core values of "Keeping True Heart of Kindness, Determination and Perseverance, Striving for Success, Sharing and Growing with the Customers" is the fundamental key for us to keep advancing and win! We must firmly and persistently carry forward our values and strive for our continuous progress, and to score a greater victory.

Chaiman
Chen Yuhong
Spring 2018

I) COMPANY STRATEGY

1. Government and enterprise business: the layout breaks through local government and enterprise market and achieves success in Chinese market

In nearly 20 years since the Group's establishment, it has become the largest IT service provider in China, its main business sources include Huawei, HSBC, Microsoft, GE and other large customers, as well as large industries like finance, telecommunication, and internet, and it already has long-term layout in government, manufacturing and other markets.

In order to realize the Group's mid-to-long-term strategic goals, the company reexamines its business model and determines that to achieve absolute success in China's market, we must penetrate the regional markets and establish our presence there.

Combining the Group's strategy and business characteristics since April, the Company has begun to build sales representative offices throughout the country and set up government and enterprise departments in 19 regions in China, as a new department established in various regions of the country facing government and enterprise market, the department has made significant progress in promoting the sales of various businesses such as manufacturing cloud, cloud software park and big data.

Since signing the first partnership agreement with Huawei Cloud in July, we fully and closely cooperated with Huawei representatives in different regions, worked with the excellent sales forces to learn the excellent sales system of Huawei, developed methods with the Company's characteristics and built benchmarks in different regions and fields. In 2018, we will take advantage of the nationwide distribution to promote regional government and enterprise market operations.

2. Jointforce: To Consolidate the Best Industry Ecological Resources and Continue to Implement Cloud Software Parks in Region Markets

Jointforce has been officially commercialized for two and a half years. The products continue to better, and the business has soared. The initial percentage taken from transaction business model has been replaced by memberships. Jointforce platform has gathered more than 300 thousand engineers, nearly 10 thousand service providers, and more than 30,000 outsourcing companies, with the outsourcing amount of more than RMB1.3 billion. The new cloud software parks launched successfully in Qingdao, Nanjing, Xi'an, Wuhan, Hefei, and Chongqing among other cities. Meanwhile, the Company formed a "sailing on the same boat" partnership with Huawei, and included branding, market activities, and sales system into Huawei's software development cloud. The two parties established a joint innovative center in Nanjing Software Valley. Geographically, Jointforce's ecosystem (resources) has spread over 23 software cities and provinces, including Nanjing, Qingdao, Beijing, Shanghai, Xi'an, Da'lian, Chengdu, Wuhan, Guangzhou, and Shenzhen (the 18 key software development bases).

The software parks are the vehicles of the Jointforce platform, and within the parks, Jointforce will develop new industries, services, technologies, and ideas to form a new business model and create competitive advantages. The new industries are driven by software information services and "Internet+" to develop the cloud computing industry in the software parks and promote the transformation and upgrading of traditional industries. The new services in the parks are driven by cloud and crowd-sourcing services and helping the parks to establish a platform service business model. The new technologies will be to bring in Huawei's Agile development method, DevOps, quality control, and other tools and technologies to help the parks quickly build its advantages of basing off cloud platforms. The new model, for the enterprise market, will be an O2O model running on platforms, and sharing, leasing, research and development, and other services, will all be completed on the cloud.

The Group has been making innovations in its business model, JointForce signed a strategic cooperation agreement with the Nanjing Municipal Government and plans to construct an Internet-based government procurement platform in five years to fully aggregate industrial resources and form economies of scale, this model will be promoted throughout the country.

3. Cloud Computing: Work Together with Huawei, "Sail on the Same Boat," Push the SaaS Transformation, Build a Chinasoft Cloud Service Brand, and Together Create a Prosperous Cloud Ecosystem

As technologies improve, the Internet business continues to prosper, and the digital economy scale continues to grow. It is estimated that by 2020, 25% of the world's GDP will be digital economy. Cloud computing is an important technology to help enterprises digitalize and is a disruption to the traditional enterprise mindset on management. It lowers enterprise's operating costs significantly and increases enterprise's managerial efficiency. Safe and steady digitalization of the enterprises brings an easy, efficient, and flexible solution.

The Company has been working on cloud services since 2013 and has created a team of more than 3000 technical staffs. During the reporting period, the Company launched its "intelligent manufacturing cloud", "training cloud", and other industry solutions to successfully transformed its SaaS business. The Company successfully established its cloud consulting, migration, operation, training and other foundational cloud management capabilities to form enterprise cloud application solutions and created a Chinasoft cloud service brand.

As the first company to receive Huawei's CSSP (cloud) certification, the Company signed the first official "Sailing on the Same Boat" strategic agreement with Huawei and was recognized as Huawei's "Best Cloud Ecosystem Partners". The Company jointly launched with Huawei its "Intelligent Manufacturing Cloud" solution. Through its intelligent manufacturing cloud platform's establishment and operation, the Company achieved manufacturers' digitalization, Internet, and intelligent push, helping the manufacturers to realize a smart manufacturing transformation. The Company's intelligent manufacturing cloud achieved breakthroughs in Kunshan and Chongqing, and in the next three years and the Company will accelerate its push to help Chinese manufacturers achieve smart upgrade. This market provides huge growth prospect for the Company. Catapult Systems, a subsidiary of Chinasoft, also completed its solutions and service transformation. Catapult Systems transformed from its traditional service business model to include service subscription businesses and received market success through its launch of Fuse and Launch. Catapult was awarded 12 Gold Medals and 2 Silver Medals by Microsoft based on its contribution to the Microsoft Public Cloud Service Ecosystem.

In the future, the Company will continue its cloud strategic partnership with Huawei and build out its cloud business core competencies. The Company will jointly build a cloud ecosystem and stay determined with its cloud business transformation.

4. **Big Data: Breakthrough in Data Bottlenecks and Become Data Engineers in the Artificial Intelligence Era**

The IDC predicts that the big data and analytic market will grow from USD130.1 billion to USD203 billion from 2016 to 2020. The data application demand and requirements from enterprises are increasing. The creation and development of artificial intelligence, blockchain, among other emerging technologies, and big data driven decision makings are bringing cultural changes, further stimulating the market demand for big data and analytic services. In 2016, the Company quickly established unique cross-industry big data services advantages, including establishing a high quality big data service team of over 1000 engineers, one of the biggest and most recognized team in the big data field in China, covering consulting, implementation, development, quality and professional pragmatism, an advanced independent software platform and cross-industry consulting and implementation methodology, end-to-end solutions, technical service capabilities to help customers plan and design rational and scientific big data structures, methodical integration of data sharing, precision marketing and micro management, and operational risk control capabilities improvements. The Company's data business built on top of its advantages in the finance industry as it developed data management and big data platform services with China banks, insurance, and in the securities market. The Company also achieved multiple breakthroughs in energy, transportation, public security, and smart cities with its big data platform, and was recognized as the "2017 Top 100 Big Data Company in China". In the future, the data business will continue to thrive in financial regulatory institute, banking, insurance, securities, transportation, logistics, energy, manufacturing, public security, healthcare, media, government, high-tech zones, administrative, and other fields and leverage its years of industry knowledge to provide comprehensive data services and decision-making support. The Company will help the clients to establish enterprise level data infrastructure, and profit off the digitalization and AI era. Big data will become the Company's new growth engine.

5. **Globalization: Leverage the "One Belt and One Road" Initiative and Establish Chinese Influence in the Global IT Community**

In essence, the "One Belt and One Road" development strategy is a system upgrade and input of the different unique Chinese cities' experiences. It is an opportunity arisen based on the basic infrastructure establishment, city operation, financial support, human resource, innovative technologies, cultural integration, and other industries. The basis of this system upgrade is the wide usage of ICT to increase a leapfrog development of the country. The "One Belt and One Road" strategy is the country's digitalization plan, and for it to consolidate, advance, and promote the evolution of different cities. The "One Belt and One Road" provides a huge business potential for "Digital China".

The Company provides long term IT services to Huawei, HSBC, Microsoft, GE and other Fortune 500 companies in 32 different countries and have accumulate customer experiences for a large number of global clients. The Company will leverage the digital "One Belt and One Road", combining Huawei's product and industry experience and speed up the Group's global expansion plans. In the future, the Group will establish global centers in Russia, Romania, Mexico, and etc. and improve its centers in America, Japan, India, Malaysia, Hungary. The Company will become a global IT company and establish a Chinese IT presence in the global IT community through its cloud driven digital transformation services.

II) BUSINESS LANDSCAPE

The Company is positioned to provide integrated software and information services, i.e. end-to-end IT services, including consulting services, technical services outsourcing services, and training services. The technical services mainly involve IT solutions and outsourcing services, including ITO, BPO, EPO, and more. The Company's customers are in industry sectors that possess high IT growth potentials, including finance, telecommunication, government and manufacturing, high technology, and etc. The Company's customers are located in China, United States of America, and Asia Pacific region. The Company owns more than 300 software copyrights and patents, including Resource-One (R1), the middleware platform software that provides application support for industry solutions, TopLink, the software platform product that supports big-data exchange, and Ark, the one stop big data scenario and big data development middleware aimed to provide enterprise cloud disks, communications, and other solutions for enterprises looking for cloud transformation.

i. Technology Professional Services Group (TPG):

1. Software Platform Products
2. Strategy, Business, and IT Consulting
3. Big Data Products and Services
4. Industry and General Application Software and Solution Development
5. Mobile Internet Products and Services
6. Product Engineering
7. Application Development and Management Services
8. Enterprise Application Services
9. System Integration and Services
10. Business Process, Engineering Process, and Knowledge Process Outsourcing

ii. Internet IT Services Group (IIG)

1. Jointforce Platform
2. Cloud Migration and Operation Services
3. Cloud Consulting and SaaS Services
4. PaaS Products and Services
5. Cloud Solutions
6. Training Business

1. **Segment Description**

   i. **Introduction of TPG Business**

   TPG is the first "wheel" of the Company's bi-model structure that services large customers and large industries that require the Company's experienced project management skill sets, human resource capabilities, and control of certain specific resources. The Huawei and financial lines of business are TPG's leading ("fist") lines of business.

   The Company has over the years consistently used the consulting-driven business model, based on its independently developed software platform products, and provided end-to-end professional services that combine consulting methodology with the information technology practices of China's enterprises. It adheres to the philosophy to focus on the industry and prioritize services to strive for customers' successes. In addition, the Company has trained a large number of experts in the industries that it serves and established harmonious reciprocal win-win business environment with its customers, with a high level of market appeal and customer loyalty, which has effectively established the leading position of the Company in the solutions field in China. The Company is also committed to provide global customers with comprehensive, flexible, and scalable high-quality IT outsourcing services. With experienced management and technology specialists as well as a variety of delivery models, the Company is able to adapt to the ever-changing business and technology environments.

   - **Software Platform Products**

     The Company currently has two series of proprietary software platform products, the Resource-One and TopLink/TSA+. The Company integrated the concept of "Products are services and services are products" into the design structure of these products, which also allows the Company to find a balance between stability and changing market demand. The Company continued to invest and improve its software platform products for over a decade to enhance the technical applicability and performance of the products, thereby continuously enhancing the levels and standards of customer services.

     The Company's Big Data middleware (Ark) is a one-stop, big data scenario development platform in the big data market that encapsulates the technical details of the current mainstream data technology framework (such as Hive, Hbase, HDFS, Spark, and etc.) The platform can help enterprise users to quickly visualize and create a big data processing process, help companies quickly migrate existing data to large data technology system, and to enjoy the big data technology for data processing to bring forth new changes. Meanwhile, Ark can largely reduce the cost for enterprise users learning how to use big data technologies and help enterprise users to unify its application and maintenance, allowing the users to freely navigate through the sea of potential valuable data.

- **Strategy, Business, and IT Consulting**

  Consulting services sit at the top of the business value chain of the Company. By providing strategy and business consulting services, the Company can more clearly understand the intrinsic nature of customers' business and understand their real needs. The Company's consulting products and services are based on a rigorous and proven scientific method and frameworks. In the areas of business processes, technology and outsourcing, the Company analyzes and evaluates the existing environment to determine the optimizing opportunity and provides customers with the strategic development path that can significantly save costs and increase productivity.

- **Big Data Products and Services**

  The Company has provided big data consultation, implementation, and operation services including big data infrastructure planning, data platform, management, analytics, and other end-to-end data technologies and new big data services for government and financial institutes (small to mid-size enterprises). The Company is dedicated to development big data applications and technological solutions for the new era of National Government and enterprises. The Company provides planning and designing big data infrastructures for industry digitalization and AI for its customers, helping them increase the precision of management, enhance risk control capabilities, and establish smart business. The Company helped improve government's administrative management model and helped enterprises in different industries and financial institutes achieve transformational upgrades under the digital economy.

  The Company's big data capabilities cover all the need in the life-span of an enterprise's IT transformation process, combining data, management, and application. In terms of data integration, the Company provides enterprise level data structure development, consultation, planning, data center and big data platform, forming a comprehensive and mature enterprise level infrastructure data platform solution. In terms of data risk control, the Company provides industry grade data management and standardization, data management platform, data quality management, metadata management, data security management, data assets assessment and value management as a comprehensive service. In terms of data application, the Company will help different customers in different businesses and scenarios to establish customer marketing, risk control, regulatory compliance, knowledge management, financial management, performance management, cost management and other enterprise level applications, helping the customers to development appropriate, multi-layered data service systems.

- **Industry and General Application Software and Solution Development**

  The Company provides customers in different industries with end-to-end process services that include industry and general application software and solutions. The Company uses Resource-One application supporting platform to penetrate through the entire project cycle of "Planning – General Design – Development – Overall Integration – Operation and Maintenance", in which the integration methodology of the Company has been incorporated, including:

  ➢ In the planning and design phase, the Company dispatches appropriate industry consultants and qualified designers, armed with in-depth knowledge of the best practices of information technology, to understand the customer's business needs and form a business components map that can be assembled using the R1 platform into an integrated business framework.

  ➢ In the scalable development and testing phase, the Company's on-site team members will work closely with the customer, keeping up with the customer's changing needs. The Company assigns a large amount of development and testing work to the Center of Excellence (COE) to be conducted in different professional expertise areas including Java,.net applications, cloud computing, and mobile solutions. By using the development tool of the R1 platform, the Company's COE ensures a unified technological architecture and quality, thus effectively increasing repeat usage as well as reducing development time and costs.

  ➢ In the application integration phase, the Company's implementation engineers will use the integration methodology of Resource-One as well as other robust, scalable and extensible platform tools to conduct integration tests and assemble the components of complex business applications according to their levels and categories.

  ➢ In the operation and maintenance phase, the Company's platforms, application software and solutions have been adopted nationwide; the Company has simultaneously completed the layout with specialized operation and maintenance teams in all key areas of China.

  With years of experience and the successful practice of a large number of projects, the Company has gained industry service capability, customer service capability, regional service capability and large project service capability. Relying upon its R1 platform software, the Company focuses on process control in development and business management, while adhering to standard requirements of quality control systems ISO9001, ISO20000, ISO27001 and CMMI, fully ensuring the service quality and delivery time.

- **Mobile Internet Products and Services**

  The Company is the one of earlier mobile application product designers and is also one of largest professional mobile end developer and adaptation of service providers. The Company provides instant messaging, integrative communication, mobile social, mobile payment, enterprise mobile application, application shopping mall, and internal product design, as well as development and operating marketing service.

  The Company's end terminal product development service includes terminal hardware, terminal software and wearable products. Terminal hardware includes mobile phones, vehicle-mounted communication terminals, smart wearable tablets, home set-top boxes, and etc. Terminal software includes the maintenance and R&D of mobile phones and other products, multiple services such as driver development, protocol development, application development, tool development, product management, and software testing. Wearable products include related product development and testing services, as well as wearable App development and testing.

- **Product Engineering**

  The Company provides product engineering services to technology product development companies, including independent software vendors and telecommunications equipment developers. The Company's capability of fast delivery can help customers improve the speed of product development, and save development costs, thus gaining the time advantage in marketing their products. The development of products by the Company includes operating system, database, middleware, network protocol, speech recognition and human-machine interface, telecom value-added applications and other software products. The Company can also provide specialized products and services, including product design, development, and quality assurance and testing.

- **Application Development and Management Services**

  The Company focuses on specific industry client demand and offers application development and management services such as application software development, system maintenance and system optimization. The Company's ADM services were designed to help customers realize the scientific management of spending in IT outsourcing, enabling customers to focus more on their core competencies. The Company has experienced and well-structured ADM service teams in application environments such as mainframe computers, client servers, internet and mobile internet, as well as a variety of platform software programs including various mainframe system, Windows series, Linux/Unix and Android, Symbian, IPhone OS, etc. The Company can deliver the ADM services in its Centers of Excellence (COE) or at customers' sites.

- **Enterprise Application Services**

  The Company provides consulting-driven enterprise application services. While keeping standard functions of system application unchanged, the Company takes into consideration the differences in customized needs of enterprises, managerial needs and proposes an application solution meeting their needs. This enhances management quality of enterprises, and allow customers to realize goals of supporting business of enterprises.

  The Company's enterprise application services cover a number of mainstream ERP systems and e-business packages, including enterprise resource planning (ERP) systems, customer relationship management (CRM), supply chain management (SCM), enterprise application integration (EAI), and etc. Specific services provided by the Company include: packaged software implementation, customized development, maintenance and product upgrades, business intelligence (BI)/data warehouse (DW).

- **System Integration and Services**

  The Company has extensive experience in services with "A" qualification for system integration, and the major services provided include system integration, system maintenance and system operation. Together with other services, the Company covers the entire life cycle of information systems, ensuring smooth construction and operation of medium to large information systems.

- **Business Process, Engineering Process, and Knowledge Process Outsourcing**

  The Company offers BPO, EPO and KPO services to customers within different fields including finance, manufacturing, medical and healthcare, transportation and logistics, targeting at markets in Japan, Europe, America and the Greater China regions. The Company provides customers with multilingual BPO, EPO and KPO services, including back office processing, shared service centers, data processing, desktop publishing (DTP), CAD, Call Centers, business intelligence and data mining.

ii. Introduction of IIG Business

IIG is the other "wheel" in the Company's bimodal structure. The Internet ITS business is focused on the "on-line" business with customers that are more price sensitive and projects that are best handled by flexible resources. Majority of the work in IIG will be performed through the Jointforce platform. With the Jointforce platform, developers from anywhere in the country can freely bid and work on projects listed on the platform, allowing the business to pick and choose the best developers at the lowest cost.

At the same time, projects that have only periodical service needs can come to the platform when services are needed and pay no continued fixed costs when the projects are completed. This greatly alleviates the waiting cost in traditional ITS models for projects that have long waiting periods between tasks.

- **Jointforce**

  The emergence of the Jointforce platform aims to ease the pressure of industry software-driven enterprise transformation and promote industry upgrading. Among them, the existence and operation of SMAC's technological innovation as a platform play a decisive role.

  Jointforce providers an alternative delivery model than the tradition ITS delivery model. During the delivery process, Jointforce helps the vendor and the buyer to find a satisfactory price, much like Airbnb. Jointforce is integration the idea of shared economy and crowd sourcing into the ITS market.

  The Company pushed out the cloud software parks and used Jointforce as its vehicle to expand new industries, provide new services, and bring in new technologies and ideas, forming a new model and competitiveness for the software cloud.

- **Cloud Migration and Operation Services**

  The Company has been carrying out technical services including light cloud migration, independent host migration, system configuration, software configuration, data backup, data transfer and system configuration. Clients coverage includes individual user, professional user, as well as enterprise user. It also provides maintenance service for users. In the near future the Company will provide more technical cloud servicing capabilities in accordance to new technologies, acquire new partners, and expand into new industries.

- **Cloud Consulting and SaaS Services**

  The era of cloud computing has arrived for those that want to simplify IT, push innovation, increase returns on IT investments, and increase efficiency in operations. The Company entered into a strategic agreement with Huawei Cloud and Tencent Cloud, two leading Chinese cloud computing companies, to provide cloud consulting and customized services. Innovation is treated as a standard today, including rich social experience, mobile payment, friendly user interface, structured and unstructured instant search data and regularly and upgrade without interference, The Company's SaaS solution project combine user needs with innovative technology. These innovation functions are able to disrupt the client's core business and enhance its core system performance.

- **PaaS Products and Services**

  Radar Cloud PaaS platform is the Company's proprietary PaaS product that enables cloud development, integration, management, and serves as a portal to link with other cloud partners. Radar Cloud PaaS platform is the result of the Company's business innovation and dedication to products. It is also the result of the Company's strategy to go smart in verticals including government, healthcare, transportation, real estate, education, and etc, The Company focuses on new technology, new models, and will use the Radar Cloud PaaS platform as the base for cloud computation to improve the Company's cloud capabilities, further pushing smart transformation.

- **Cloud Solutions**

  The Company took full advantage of multiple solutions and servicing experiences accumulated over the course of 10+ years to fully understand the cloud service 2.0 era's go to market characteristics. The Company will continue to develop cloud solutions in government, manufacturing logistic, finance, public services and etc. In the government sector, the Company has developed enterprise audit cloud solution, city operation big data cloud solution, data asset management solution and etc. In the manufacturing logistic industry, the Company has developed logistics line cloud solutions, enterprise cloud disk solutions, process and IT cloud solutions, retail cloud solutions, and e-commerce cloud solution and etc. In the financial industry, the Company has developed an internet finance cloud solution. In the public service industry, the Company has developed a rail transit ACC solution.

- **Training Business (Excellent Training Center/ETC)**

  The Company's ETC is an IT training base for undergraduates certified by the Ministry of Education of China. It is a world-renowned high-end IT technology training brand. The Company help undergraduate students that's in IT related coursework or post graduated (through recruitment) to gain real-life IT training. There are already 9 ETC (Chinasoft International Excellence Training Centers) and 31 ECC (Chinasoft International Experience Centers) in the country. Employment training covers 28 domestic cities.

2. **Industry Verticals**

The Company has strong presence in the following industry verticals:

i. ***Government and Large Enterprises***

Over the years, as a pioneer for e-government, the Company has leveraged its extensive industry experience and its understanding of the intrinsic nature of customers' needs and based on Resource- One, undertaken a number of key national technological projects. As the chief integrator, the Company has achieved outstanding results in a number of national Golden Projects, such as Golden Auditing, Golden Quality, Golden Insurance, Golden Agriculture (Agricultural Management and Service Information System), Golden Macroeconomic Management (Macroeconomic Management Information System) and Golden IC-Card Projects, by which Resource-One was recognized by CCID as the top brand among e-government application support platform products in China, establishing a comprehensive leading position in e-government. According to IDC market research, the Company has maintained among the top three in the overall rankings in the market of government industry solutions for a number of consecutive years. Through cooperation with Ali-Cloud, the Company achieved a breakthrough in the field of government cloud and became one of the leading providers of e-government cloud services in China.

ii. ***Financial Services and Banking***

Based on different professional services and TopLink, the payment platform product with proprietary intellectual properties, the Company provides personalized financial services, with secured payment as its core, to its customers in financial and banking industry. The Company has a long history of providing industry solutions, system integration services and related high-end services for its key customers including five major state-owned banks, postal savings banks, a number of joint-stock commercial banks and city commercial banks, as well as foreign-invested financial institutions in China. The Company accumulated extensive experience in industry application and achieved "Three Firsts" in China – the first inter-bank bankcard payment network system, the first financial IC card payment and clearing system and the first e-commerce online payment and settlement system. In particular, the "electronic funds transfer and retail banking application system" was recognized as one of the outstanding projects of the fifteenth National Torch Program. In 2017, the Company received high praises and recognition from HSBC, further solidifying itself as HSBC's sole global service provider in China. Furthermore, the Company established a new team for HSBC in Malaysia and became HSBC's overseas service provider, creating a foundation for global blueprint.

According to the IDC market research, the Company was ranked among the top five for many years in the payment and clearing solutions market of the banking industry and was ranked the first in bankcard system markets in 2010. In terms of Internet Finance, the Company's consultation and solution capabilities received high approval and recognition for the clients.

iii. ***Insurance and Securities***

Based on years of industry experiences and its strong technical teams, the Company continued to expand vertically into the insurance and securities industry and built positive relationships with its customers. The insurance business, based on years of industry experience and a strong consulting, solution and technical team, is actively participating in the establishment of insurance factor standards and industry data governance in the industry regulatory side, establishing in-depth cooperation with major customers in the industry. For the core insurance business system, the Company developed leading insurance sales channel management and marketing support and formed an entry barrier with its advantageous technologies including insurance big data, AI, insurance risk management, insurance financial management, and etc. The Company's insurance big data, AI, insurance sales channel management and marketing support have a clear market leading position. For securities business, the Company has established technological advantages in important and innovative fields such as the formulation of industry data standards, core clearing, bills and interest rate swaps, next-generation transaction monitoring, risk control, and big data infrastructure, and supporting data management and control. In 2017, the Company achieved remarkable results in regulatory big data transaction, risk management, and other smart regulations, wining the trusts of clients and standing out within the industry with its comprehensive capabilities. The Company, as an important participant of financial IT services and pioneer of more segmented businesses, will help securities clients built technical advantages and provide clients with the best comprehensive, or "until the last mile", services.

iv. ***Telecommunications and Internet***

The Company is one of the early service providers in wireless Internet platform design, development and operation, and also one of the largest professional service providers in application development and adaptation for mobile clients. As a trusted partner of China's telecommunications operators and equipment makers, the Company provides its customers with product design and development, and operation and promotion services such as mobile payment, mobile instant messaging, mobile SNS, enterprise mini blog, mobile application stores, PTT (push to talk intercom phones), embedded browser, mobile advertising platform, etc. Through development of products for Fetion of China Mobile, the Company has a solid foundation in the field and will promote integrated communication strategy for China Mobile.

The Company has been providing long-term services for well-known Internet IT companies. The Company strengthened customer cooperation and established capability centers, improving servicing efficiencies. Leveraging on the accumulation of Internet industry experiences, the Company achieved breakthroughs in multiple large customers in the Internet industry. The Company consolidated its industry solutions and provided customers with "end-to-end" services, further maintaining its leading industry position. The key customers in the Internet industry include Tencent, Alibaba, Baidu, and etc. For example, the Company signed a strategic cooperation with Tencent Cloud to become its highest ranked channel partner. Furthermore, the Company signed a strategic cooperation with Baidu to start a comprehensive partnership in AI development, and together with Baidu, help promote smart upgrades.

v. ***Manufacturing Logistics and Smart Manufacturing Cloud***

The Group has been actively engaged in the manufacturing logistics industry for many years and owns a number of proprietary intellectual property software, such as the Production Execution System (MES) and the Logistics Operations Management System (LES). They provide customers with sophisticated bottom-level automation systems and top-level decision support systems. The Company has a leading market position from factory application to group control, from management consulting to IT planning to system development, from IT operation to maintenance of "end-to-end" services. The business scope includes tobacco, machinery and equipment manufacturing, automotive, steel, pharmaceuticals, printing, paper and other industries. As the IT strategic partner of the tobacco industry, the Company has the core advantages of keeping up with the market trend and leading IT capabilities, qualifying itself to participate in the establishment of industry application standard. The Company has 100% coverage of the top 100 tobacco companies and provides integrative platform services for different applications. The MES business continues to expand and has the number one market share in the industry. Secondly, the Company, through management application phases, established a safe enterprise manufacturing environment, satisfying the accuracy of raw material tracking and inventory and increasing enterprises management level. Next, through big data projects, the Company further increased its big data capabilities and accumulation of experiences to be used in more and different industries. Lastly, in order to adapt to the new technologies and IT requirements, the Company developed a safety management system surround the industry, forming a one-stop safety and operation IT solution based on the cloud. Through the formation of a unified platform (cloud platform), the Company will continue to expand its cloud integration and platform development (customized) capabilities and with Huawei create joint hybrid cloud solutions to be applied to many industries.

The smart manufacturing cloud is based on the standard model of a smart factory and uses a SaaS model to serve the government related industries, manufacturing companies, society and consumers. It is a combination of "smart industrial applications" that supports the development of urban industries and enterprises. The Company, with the goal of Smart Manufacturing Cloud to increase industry upgrade transformation and "value change" capabilities, developed a smart industrial ecosystem to provide new technological applications, based on cloud computing, big data, and mobile IoT, in research and development, design, process, processing, logistics and the full-service process. There are three major service advantages with this. First, to integrate all the ecosystem resources and promote resources sharing for all manufacturers and their supply chains. Next, through the new PaaS platform (facing the "new manufacturers), to build a rich industry template datable to support the development of different manufacturing applications and needs. Lastly, to use industrial diagnostic cloud, cloud MES, cloud PDM, cloud ERP, cloud real-time site management, and other SaaS applications to support the implementations of the solutions. The Company, using its smart manufacturing cloud as foundation, has started working with local governments in Jiangsu Kunshan, Chongqing Shabei, etc. to collaborate with their smart manufacture demonstration zones. The Company will, through the establishment and operation of the smart manufacturing cloud platform, promote the "establish pioneering manufacturing bases that are globally competitive" initiatives, to help manufacturers realize digitalization, smart evolution, and help built said bases faster, promoting true smart manufacture transformation.

vi. Public Service

Through years of professional experience accumulation, the Company maintained the leading market position in public transportation, railway transportation, airports, and other related transportation related solutions market. The Company three "firsts". The first nationwide "one card access" payment and clearing system, ticket exchange payment and clearing system, and AFC system (automated fare collection system with proprietary IP). The Company provides its transportation clients with AFC system, ACC system, rail transportation project management, smart transportation, airport operation management system and other solutions, professional application integration and operation and maintenance services. The Company's ACC system takes the majority of the market share in China. The Company provides its airport clients with security management, material management, and big data development services. Furthermore, the Company's mobile operator payment business has a clear competitive advantage, and through strategic partnerships, successfully expanded the business to overseas market.

In the energy sector, the Company maintained its "Provide Value Add Services for Its Customers" belief, and through a series of partners, formed partnerships with key clients in subsectors including power generation, power grids, and mining, providing them with industry specific solutions, professional management, and management solutions. The Company developed its own power AMI product, with the help of its professional team and outstanding operation system as support, and won the bid for Huawei's electricity marketing project. The two parties will together expand into the global power marketing and production management sector.

vii. Hi-Technology

The Company's high-technology business has clients located in America, Europe, Japan and Greater China, to whom the Company provides comprehensive and tailor-made services. Standardized delivery of services was achieved through delivery centers set up around the world. According to IDC's market research reports, the Company was ranked in the top 3 in China's overall offshore outsourcing market, and ranked in the top 2 in the European and American market. For the 8th consecutive year, the Company was named as "Global Outsourcing 100" by IAOP (International Association of Outsourcing Professionals). The Company's major customers include Microsoft, GE, etc.

The Company is Microsoft's first Global Premier Vender in the PRC, Microsoft's most valuable global vendor, and a preferred supplier of Microsoft's MCS (Microsoft Consulting Services) in the PRC. It has also obtained the certification COPC (Customer Operations Performance Center). Meanwhile, the Company's Catapult unit is one of only 32 Microsoft National Solutions Providers, and has expertise across the entire Microsoft stack. In 2017, Catapult Systems held 16 gold Microsoft competencies and 2 silver competencies, and was recognized for various awards including 20 Most Promising Azure Solution Providers. Catapult is an outstanding consulting service provider specializing on Microsoft business, resulting in closer strategic cooperation between the Company and Microsoft. It enhances the Company's capabilities in cloud computing and serves Microsoft's customers globally.

III) RECENT DEVELOPMENT

- **JointForce:** Progress of Internet crowdsourcing platform: During the reporting period, Jointforce platform has gathered more than 300 thousand engineers, nearly 10 thousand service providers, and more than 30,000 outsourcing companies, with the outsourcing amount of more than RMB1.3 billion.

  During the reporting period, Jointforce has entered from era 1.0 to era 2.0. Jointforce launched the service mode of member and shop, provided professional, quick and easy shop customization, shop operation management, industry experience prefabrication and service order function for service providers, and provided rich privileged services and tools. It has also provided more functional support for the demanders to speed up demand delivery and quick order purchase. During the reporting period, Jointforce launched a new WeChat small program, service number, App, and a new official website to provide users with a full range of connections and access services. To better serve Jointforce free service and membership mode, it has also launched AI+ big data intelligent recommendation system 2.0, which has greatly improved the accuracy and efficiency of the system assignment and matching recommendation, with an accuracy of 80%, 20% higher than the previous data, and a 30% decline in the average transaction time.

  During the reporting period, Jointforce and Huawei Software Development Cloud carried out mission-level strategic cooperation, deeply bound the two sides' functions and services, built a new software customization development ecosystem together, and started a new era of intelligent software development. By working with Software Development Cloud, Jointforce has established a full life cycle cloud development delivery platform and launched a transactional version and community version, which enabled the projects on Jointforce to use the one-stop Software Development Cloud for project delivery after the completion of the transaction, and also enabled the extensive developers and teams to experience and upgrade their skills quickly with the community version.

During the reporting period, Jointforce has developed and launched a cloud-based software park service system platform, and provided cloud service model-based local featured service to local software parks based on the cloud computing model, settled in many cities such as Qingdao, Nanjing, Xi'an, Wuhan, Hefei and Chongqing to help local governments support local IT enterprises, gather software service ecosystem, enhance the efficiency of local software industry, and support transformation and upgrading and innovation development of traditional enterprises.

- **Cloud Manager:** During the reporting period, it has created a cloud service brand, which has formed a cloud management service capability based on cloud consulting cloud migration and cloud training. The cloud service team has been continuously expanded, of which near 50 persons obtained the qualification of Huawei HCNA-Cloud Service Certification Engineer and near 30 persons obtained Huawei PaaS high-level certification training qualification, which was in the leading position in the same industry. By introducing the mature cloud business capability of Catapult, a subsidiary of the Group, it realizes product sequence which is supported by service solution and supplemented by SaaS service package product. The Company provides one-stop, end-to-end public cloud migration services for customers in the Internet, medical service, government, finance, energy and other industries, migrates nearly 2,800 cloud hosts/physical machines, near 800 projects, and about 1,600 application systems. The Company won the bid of cloud migration and cloud service led by a provincial development and reform commission, realized the cloud service of the business system of 12 departments and bureaus and provided daily maintenance service, and it plans to comprehensively cloud the 300+ business systems that are entrusted by 42 departments and bureaus in the province in the future.

- **Enterprise Cloud Application:** During the reporting period, Chinasoft International's cloud application product solutions are becoming more and more mature, forming product solutions such as enterprise cloud disk and video conference, and focused on finance, real estate, medical, education, manufacturing and other key sectors and developed benchmark users. In the area of public cloud SaaS services, enterprise cloud disk served more than 1,500 paid enterprises and video conference serves over 200 paid enterprises. In the area of private cloud, enterprise cloud disk has served more than 30 large and medium-sized enterprises and has successfully entered overseas markets such as Southeast Asia and North Africa. Enterprise cloud disk has more than 100 thousand users, with a data storage of about 30PB. The Company has built a product eco-business model based on cloud storage and open platform, and has formed an ecological closed loop in industries such as medical service and education. In 2017, it won the "2016-2017 Yunding Award for Annual Global Best Practice", and 2017 Huawei Developer Contest Award for Excellent Works; Cloud Computing Summit "2017 Cloud Consulting Planning Service Provider" and "2017 Industry Cloud Application Developer", and the brand influence of the company's enterprise cloud application has greatly improved.

- **Big Data:** During the reporting period, the Company won the bid to run big data center project in Xi'an. The project will establish urban operation signs index monitoring system through collecting urban key basic network operation data to achieve the sharing and overall utilization of urban information resources, provide decision support, data sharing, data service and data management for Xi'an municipal government in such aspects as slow plugging, safe production, energy conservation & emission reduction, pollution control and haze reduction. Wining the bid has demonstrated the Company's super strength in the design and settling implementation of new smart city business application and data architecture ceiling.

  During the reporting period, phase 1 project of West Airport Group Data Center was inspected and approved and phase 2 was started. This project is the Company's benchmarking project in the field of airport data center, phase 2 project will help customers improve operational efficiency and passenger travel experience with advanced data and technology ability, and continue to build the Company's core competitiveness in the field of big data of airport.

  During the reporting period, the Company participated in the construction of the police big data center of a prefecture-level city in the Yangtze River Delta area. It has become a necessary guarantee for the public security department to build smart police in the future and has consolidated the leading position of the Company in the construction of public security big data. During the reporting period, the Company continued to firmly practice the value proposition of "the integration of wisdom and ecology", work with all parties in the big data industry chain at home and abroad to create a comprehensive leading big data brand. The Company participated in the preparation of national big data technology standards, which was led by the Department of ICT Institute. As the major compiling unit, it contributed the experience and methodology in enterprise level data governance and data asset management for the compilation of the first White Paper on Data Asset Management Practices in China. It was selected as the big data industry map compiled by the 13th five-year plan working group of the Ministry of Industry And Information Technology, won top 10 best data scheme provider in 2017, and won the 2017 China big Data Top Ten Solution Award by virtue of Beijing's one-card city traffic big data analysis and visualization system.

- **Huawei:** During the reporting period, the Company formally signed the first cloud partnership agreement, and conducted all-round cooperation in the areas of software development cloud, cloud solution and cloud service. During the reporting period, the company accumulated many years' experience of serving Huawei, and successfully built up the GTS (global technology service) model of globalized undertaking solution capability model and verified and perfected the feasibility of the model in the process of actual implementation. The global layout of the Company has been gradually formed, and the center of India and Romania has been established. Among them, Huawei has been undertaking the global custom center and India Research Institute in India, and a large-scale team has been established. Huawei Mobile Money Platform, supporting self-developed Mobile Money APP Store, entered overseas market. The Company will leverage Huawei's product service and built the Company's micro service capability center and big data AI business. The prospect of service production is broad.

- **Finance and banking:** During the reporting period, the bank's traditional business and new business have made steady progress. Among them, significant breakthroughs have been achieved in new products such as bills and risk control, and new businesses such as big data, Internet payment and unified payment platform, business cloud management platform, artificial intelligence, and block-chain.

  During the reporting period, more than 20 banks won the bid of new bill product and established the market leading position of direct reform of the local ticket exchange. Credit audit, collection and anti-fraud in risk control products have been successfully implemented by many customers, which improved the risk control ability of the full cycle of credit products. The Internet credit, consumer finance, trade finance and supply chain products in the field of credit financing have been implemented in many banks, mutual funds and non-financial institutions to meet the needs of various types of customers' credit business.

  For big data, the Company won the bid for a big data risk control and big data marketing project of a large state-owned bank, implemented a customer management system of a large state-owned bank, and successfully implemented a big data platform project of a national joint-stock bank, and realized the functions of data acquisition and processing, the public customer label system, and the portrait of the public clients.

  For Internet payment, it covered the traditional POS, online trading, and life circle of O2O acquiring business docking core billing system, mobile phone bank, aggregation of banking channels, mainstream Internet third-party payment channels, and formed acceptance, risk control, reconciliation, clearing and settlement service, and implemented in more than 30 customers.

  Merchant cloud management platform has been carried out in several large banks, providing integrated services such as payment and marketing of consumer payment and marketing, and data accumulation for the subsequent big data business analysis and customer group portrait.

  During the reporting period, for artificial intelligence, the Company has established a strategic cooperation with well-known Internet company, settled the business scenes in face recognition, character recognition, machine learning and other aspects, and established a joint laboratory with famous universities to achieve the core algorithm optimization of data model. In the application of block chain technology, the Company discussed with many banks the application scenarios, and has settled in the direction of data consensus, transaction traceability, asset securitization, bill circulation, supply chain finance and etc.

  During the reporting period, the Company was rated as the best IT service provider by several customers, and nearly one hundred project teams have been recognized by customers. Its project of big data risk control of a large state-owned bank and big data application project for thousands of people won "China's Top Ten Internet Financial Innovation Award in 2017"; the centralized RMB clearing system of a foreign bank has quickly promoted the efficiency of business processing, and played a key role in the development of the customer agent bank, which was praised by the head office, reported by overseas mainstream media and highly praised in the industry.

- **HSBC:** During the reporting period, HSBC business has made a breakthrough in scale again, and presents a diversified and rich development trend.

  During the reporting period, HSBC China mobile phone bank and WeChat bank, developed by the Company, were officially launched, which enabled 500,000 users in China to start with Mobile & WeChat Banking to complete HSBC accounts, transfer, investment, stock and other services. Meanwhile, it combined AI and face recognition with WeChat payment function for the first time and launched the "smart cute little I robot", which provided a new direction for HSBC Global Mobile banking solution. Because of this, the Company's R&D Team won the honorary title of HSBC Team Star for the first time. During the reporting period, HSBC's online banking channel system successfully launched, reducing the credit card application process from six days to 10 seconds, greatly enhancing the business efficiency and helping the bank to gain a leading position in the field.

  During the reporting period, HSBC CMB (Commercial Banking) SME transformation business has made breakthroughs in the field of global service, released in 14 countries, supports 7 languages, has 2,500 active SMEs users, and covers more than 30 countries and regions in terminal business, which fully reflects the strong R&D and service support capability of the company in this field. During the reporting period, HSBC's third generation global commercial banking platform, developed by the Company, has made a great breakthrough. The system adopted cloud technology for the first time and widely applied micro service technology in large banking system, which cover the business of HSBC in the world, and has accumulated valuable development and implementation experience for the company to promote the cloud technology and micro services of the commercial bank system in the world.

  During the reporting period, the Company fully participated in almost all of the business of HSBC and Hang Seng in the milestone year of Hong Kong business, which is an important cornerstone for the Company to expand its overseas business. Meanwhile, HSBC Malaysia's large-scale team was built, which involves core system, financial system, credit card system and other core businesses, laying a good foundation for further business expansion in Southeast Asia. The new generation of teller machine solution mVTM has been successfully launched on Hang Seng Bank in China and has been well received by customers. As a typical solution of the Company, it has become the bridgehead out of the sea.

- **Insurance and Securities Industry:** During the reporting period, under the guidance of the insurance regulator, the data specification of insurance business elements completed by the Company's consulting team was officially released. It is aimed to unify the data semantics of the domestic insurance industry and achieve the same number of documents. Continue to develop the Pacific insurance for large clients, ensure the stable growth of the business system of the new core business system, and conduct comprehensive cooperation in the field of risk. In terms of insurance big data, it has occupied the commanding heights of the industry, and won the bid of China's Baoxin massive log management platform, the Pacific Insurance list management big data platform, the big data platform of the Ampang insurance group, and the customers of sunshine insurance group contact with the historical big data management platform. During the reporting period, the company's securities industry has made breakthroughs among several new clients. The securities layout in Beijing and Shanghai of 4 core institutions of the industry, including Shanghai Stock Exchange and National Equities Exchange and Quotations have been preliminarily completed. The securities data business team is in the leading position in the accumulation and innovation of the industry plan. It is effectively supplementary with the previous businesses such as core liquidation and outsourcing development.

- **Telecommunications, Internet and Mobile Terminals:** During the reporting period, the Company won the bid of China mobile Migu Culture Group operation and maintenance support and software development support project and became the main service provider of Migu Culture Group business. During the reporting period, it served the central mobile Internet corporation integration communication client, the technical resource pool and Fetion OTT and other projects. In November 2017, it signed the memorandum of cooperation with China Mobile on unified authentication and Fetion, becoming an important partner of mobile and Fetion promotion. The Company has established a comprehensive cooperation relationship with China Mobile government and enterprise branches in the industry solutions and cloud service, taking the direction of smart city informatization as a priority cooperation point.

  During the reporting period, it won the bid of China Telecom Wing payment projects of Shandong, Hebei, Gansu, Guangxi, Xinjiang, Anhui, Hubei and other provinces, and consolidated the Company's leading position with Wing payment.

  During the reporting period, the Company continued to enhance cooperation with strategic customers of Tencent, provided the industry characteristics of cloud service, cloud data, cloud operations, for many enterprise customers a one-stop total service plan, and built Internet plus enterprise ecological system. It continued to explore in the Tencent maps, small programs, Tencent CCM and other business areas to create innovative business models. In December 2017, the Company signed a strategic cooperation agreement with Baidu, carried out comprehensive cooperation in artificial intelligence technology empowerment, industry development, technology innovation, ecological sharing and other aspects, to promote the integration and development of artificial intelligence and software in the field of information services deeply, and jointly promoted the intelligent upgrade of all walks of life. During the reporting period, the Company set up a mobile e-commerce capability center, and set up a mobile e-commerce company focusing on B2B2C to deliver the scale team to build e-commerce platform for customers. In addition, it successfully contracted a overall planning and construction project of large state-owned enterprise's cross-border e-commerce supply chain and e-commerce platform.

- **Government:** During the reporting period, the Company continued to maintain advanced position in the field of audit informatization. The unstructured audit data extraction tool and big data management platform of the Audit Office of Shandong Province were successfully launched and became the standard application cases in the industry. The digital smart audit project of Shanghai Municipality entered the stage of trial operation. The platform construction preliminarily achieved normalization, integrity and full association of audit data, as well as the smart and visual 4I objectives of audit tool and was highly praised by leaders from higher authorities and become a benchmark throughout the country. The "One Network" system of Tianjin Municipal Bureau of Statistics continued to innovate and introduced multiple audit information technologies and system security measures to improve the system's big data processing capacity and demonstration results. The launch and operation of the first-stage project of Postal Savings Bank of China audit management system provided audit management services to auditors of Postal Savings Bank of China throughout the world. During the reporting period, the company continued to maintain steady growth in agriculture, social security, discipline inspection, health, journalism and other businesses.

- **Manufacturing Circulation/Intelligent Manufacturing Cloud:** During the reporting period, circulation (tobacco) business continued the leading position in the industry and achieved innovative growth in core businesses in combination with Internet+, big data, internet of things and cloud computing. A data center with new generation architecture was built in Anhui Administration for Industry & Commerce by introducing big data technology; big data technology was applied in the field of monopoly to realize the mining and analysis of heterogenous and isomers data, improve the accuracy of anti-counterfeiting and anti-smuggling cases in monopoly, and improve leadership decision-making capacity through pre-guidance, intelligent control and post-supervision. The Company and Huawei released joint solution for logistics cloud and successfully won the bid for the logistics project of Dali Transport Group.

  During the reporting period, the successful bid for Hengfeng Paper's EMS project reflected that the Company's manufacturing execution system was fully capable of serving the manufacturing industry. The Company also won the bid for the MES system construction project of China Tobacco Guizhou Industrial Co., Ltd.; meanwhile, manufacturing execution system SMES based on theory of constraint (TOC) was implemented in China for the first time to support the successful launching of Hongta Group's MES project.

  During the reporting period, the Company cooperated with Huawei and jointly released "Intelligent Manufacturing Cloud" solution, joined hands with Huawei to sign intelligent manufacturing third-party strategic cooperation agreement with Kunshan Municipal Government, and established "Huawei Chinasoft Intelligent Manufacturing Ecological Enabling Center". The Company reached cooperation with Xuzhou Municipal Government in "construction of Intelligent Manufacturing and Intelligent Service Base" and will join hands with Xuzhou to build Huaihai Economic Zone Intelligent Manufacturing Service Base; reached cooperation with Chongqing Shapingba District to establish "Intelligent Manufacturing and Intelligent Service Headquarter Base", built Shapingba District into a demonstration area of intelligent manufacturing in Chongqing, and build it into an enabling center and empowerment center with influence the southwest and serving the whole country by relying on its national level intelligent manufacturing and intelligent service research institute. In the future, the Company will develop cooperation with Guangdong, Henan, Shandong and some other provinces to promote the upgrading and transformation of manufacturing industry in various regions. Chinasoft Intelligent Manufacturing Cloud is the first implementation in manufacturing industry in the mode of pervasive service of "industrial internet platform" in China.

- **Catapult:** During the reporting period, Catapult became a leading enterprise in the fields of cloud application, data modernization and cloud migration and became one of the best partners of Microsoft, with 16 Microsoft gold competencies and 2 silver competencies. Service product Fuse, the first solution of Catapult, gained continuous success and was listed as one of top 10 portal solutions in 2018 by CIO Application. Fuse is now providing services for 26,000 employees in 261 departments of a manufacturing enterprise. The first mobile application of Fuse was also successfully implemented. The second solution of Catapult, namely service product Launch, successfully signed with clients. Launch can greatly reduce clients' operation cost, while substantially improving service level. After releasing IT security compliance, namely service solution Spyglass, Catapult was rated as one of top 10 most innovative enterprise mobile solution providers in 2017. Meanwhile, Catapult released two new solutions, Application Services and Agile Analytics. Application Services allows users to obtain continuous predictable software version and Agile Analytics makes decision making and cooperation more efficient. Catapult's Azure project achieved 200% growth and Azure Bootcamp, training course in the form of video training camp launched by Catapult, has now attracted nearly 2,000 participants.

- **Public Transportation:** During the reporting period, the Company continued to maintain a leading position in the fields of rail transit ticket service and clearing and settlement. The Company obtained several rail transit ACC and AFC projects in Jinan-Qingdao region and the three provinces in the Northeast of China, and successfully obtained the first domestic rail transit ACC independent disaster recovery system, namely Qingdao Metro ACC Disaster Recovery System, which is a good demonstration for the ACC disaster recovery market about to be fully initiated in China; other than tradition AFC/ACC business area, the Company also successfully implemented the project of project management system for Qingdao metro engineering, laying a solid foundation for the proprietor's comprehensive realization of enterprise informatization. As major service provider of new payment technology application in rail transit in China, the Company fully developed the cooperation with mainstream third-party payment enterprises, such as Alibaba, Tencent, Unionpay and China Transport Gold Card, and introduced mobile payment, passing gate with QR code and other new payment technologies into the field of rail transit ticket service, which have been highly recognized by the clients and users. During the reporting period, cloud architecture ACC passed Huawei solution certification and was deployed at OpenLab, Huawei's research institute in Suzhou; meanwhile, our self-developed metro passenger flow forecast and analysis system also appeared at Huawei Connect.

  During the reporting period, aiming at the demand of overseas electric power company, the Company independently developed a set of AMI products, which can assist the client in improving power selling management through automatic meter reading and billing, configurable billing engine, multiple service channels and payment reminding measures, visual process configuration, all-round line loss statistics, and active electricity larceny prevention. The products support one-key deployment that saves the cost of overseas delivery and support modular configuration that adapts to different modular requirements for systems in different overseas countries and improves the efficiency of response to customers. During the reporting period, the Company cooperated with Huawei Energy System Department and successfully delivered the AMI Experiment Bureau in Iraq and appeared on the news program of Iraq State TV, completed the field engineering survey and design work of AMI Experiment Bureau in Djakarta, Indonesia, successfully entered the bid inviting of Huawei electricity marketing software product 2.0 framework, confirmed the status of AMI Commercial Bureau project in Laos, and launched the delivery of overseas commercial bureau. During the reporting period, the Company signed main framework service agreement with Singapore Power to provide all-round service for Singapore Power and to lay a solid foundation for the future breakthrough of business in Southeast Asia.

- **High-Technology:** During the reporting period, the Company became partner of GE Predix cloud platform. In terms of GE digital business, the Company provided all-round services including cloud migration, IOT and cloud development and became the core supplier for GE Healthcare's business in China. IoT solution capability became typical project case and rapidly developed in vertical fields including automobile, medical facilities and heavy equipment, with remote equipment monitoring and management as the entry points. During the reporting period, the Company provided technical support for Microsoft in the field of voice recognition, which improved the accuracy of voice recognition with advanced cloud platform modeling technology and achieved the Company's breakthrough in the field of AI voice recognition.

- **Training (ETC):** During the reporting period, training business maintained steady growth, with 9 ETCs (Chinasoft Excellency Training Center), 31 EECs (Chinasoft Excellency Experience Center), and employment training (ETC) covering 28 cities in China. The number of registered users on e-learning platform Zker Academy exceeded 200,000. During the reporting period, the Company integrated resources on “Chinasoft Smart Education Cloud Platform, Industry-academy Cooperation Cooperative Education Project of the Ministry of Education and Chinasoft-Huawei Cloud Practical Training” to build cooperation business among colleges and universities and signed practical training cooperation agreement with 44 institutions on the basis of Huawei Software Development Cloud. The Company joined hands with Huawei to build new mode for talent training and released “Huawei-Chinasoft Practical Training Cloud” to build new ecology of software development together and open up the new mode of ICT talent training. The Company and Huawei jointly released the joint solution of “Huawei-Chinasoft Smart Education Cloud Platform” to help colleges and universities build new ecology of intelligent talent cultivation in the context of emerging engineering education.

In 2017, the Group's businesses achieved high growths. The revenue, service revenue, profit, profit attributable to the owners of the Company and basic EPS increased by 36.3%, 34.0%, 37.0%, 27.9%, 16.0% YoY respectively. The profit excluding share options expense, profit attributable to the owners of the Company excluding share options expense, and basic EPS excluding share options expense increased by 56.3%, 46.8% and 33.1% YoY respectively.

	2017 RMB'000	2016 RMB'000	% Increase (decrease) over the same period last year
Turnover	**9,243,684**	6,783,367	36.3%
Service revenue*	**8,807,512**	6,573,770	34.0%
Profit for the year	**561,307**	409,833	37.0%
Profit for the year attributable to the owners of the Company	**565,567**	442,081	27.9%
Basic earnings per share (cents)	**23.59**	20.34	16.0%
Profit for the period after excluding share option expense	**711,259**	455,118	56.3%
Profit attributable to Owners of the Group after excluding share option expense	**715,519**	487,366	46.8%
Basic EPS after excluding share option expense (RMB cents)	**29.85**	22.43	33.1%

KEY OPERATING DATA

	2017 RMB'000	2016 RMB'000	% Increase (decrease) over the same period last year
Turnover	**9,243,684**	6,783,367	36.3%
Service revenue*	**8,807,512**	6,573,770	34.0%
Cost of sales and services	**(6,493,218)**	(4,767,529)	36.2%
Gross profit	**2,750,466**	2,015,838	36.4%
Other income	**100,491**	41,908	139.8%
Other gains or losses	**(4,065)**	1,807	(325.0%)
Selling and distribution costs	**(369,729)**	(219,022)	68.8%
Administrative expenses	**(1,086,325)**	(806,614)	34.7%
Research and development costs	**(567,313)**	(345,269)	64.3%
Allowance for doubtful debts	**(25,862)**	(17,958)	44.0%
Other expenses	**(81,742)**	(88,012)	(7.1%)
Share of results of investments accounted for using the equity method	**19,763**	17,492	13.0%
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	**–**	20,152	(100%)
Finance costs	**(102,915)**	(95,735)	7.5%
Profit before taxation	**632,769**	524,587	20.6%
Income tax expense	**(71,462)**	(114,754)	(37.7%)
Profit for the year	**561,307**	409,833	37.0%
Profit for the year attributable to owners of the Company	**565,567**	442,081	27.9%
Basic earnings per share (cents)	**23.59**	20.34	16.0%

GENERAL OVERVIEW

The revenue, service revenue, and results of the Group's different business segments in 2017 are as follow:

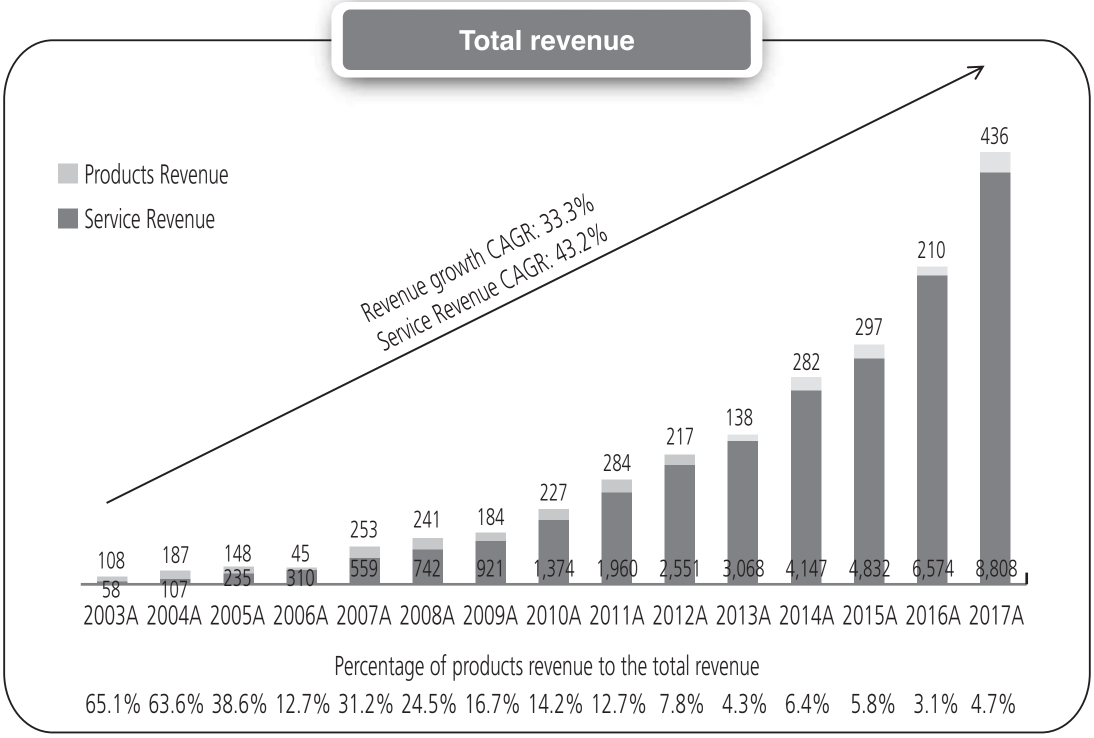
	Turnover			Service revenue			Results		
	2017 RMB'000	2016 RMB'000	Growth rate	**2017 RMB'000**	2016 RMB'000	Growth rate	**2017 RMB'000**	2016 RMB'000	Growth rate
Technical and professional service Group	**7,858,648**	5,481,921	43.4%	**7,615,969**	5,413,546	40.7%	**715,660**	533,611	34.1%
Internet ITS Group	**1,385,036**	1,301,446	6.4%	**1,191,543**	1,160,224	2.7%	**132,835**	115,656	14.9%
Total	**9,243,684**	6,783,367	36.3%	**8,807,512**	6,573,770	34.0%	**848,495**	649,267	30.7%

For segment revenues, the TPG achieved a YoY revenue and service revenue growth of 43.4% and 40.7%, driven by the growth of the core customer businesses from Huawei, HSBC, Tencent, Ping An, etc. Furthermore, the Group's cloud computing and big data business increased significantly compared to that of last year. The IIG achieved a YoY revenue and service revenue growth of 6.4% and 2.7%, driven by Jointforce's rapidly increasing business.

For segment results, the TPG achieved a YoY growth of 34.1%, slightly lower than the revenue increase due to the investment into new businesses including cloud services and big data. The IIG's result achieved a YoY growth of 14.9%, higher than the revenue and service revenue growths due to the Jointforce's Cloud Software Parks rapidly increasing business that contributed to the overall margins of the IIG.

In the future, the Group will continue to optimize revenue structure and upgrade existing business models through its cloud-driven, and platform strategic transformation. The Group believes that as the JointForce, cloud computing, and big data businesses enter into a rapid expansion phase, coupled with the expansion of overseas business, they will drive the Group's results and margins to increase.

Since listing on the GEM board in 2003, Group has maintained high revenue and service revenue growths, recording a CAGR of 33.3% and 43.2% from 2003-2017. The details are as follow:



CUSTOMERS

The Group's customers include large enterprises headquartered in Great China, Europe, United States, and Japan. In the China market, the Group has acquired a larger market share in telecommunication, banking, finance, Internet and high-technology industry. In 2017, the service revenue from the top five and ten customers are 67.7% and 73.0%.

In 2017, the Group has 1,590 active customers and 112 large customers (contributed to more than RMB6 million of service revenue within the past 12 months).

MARKET

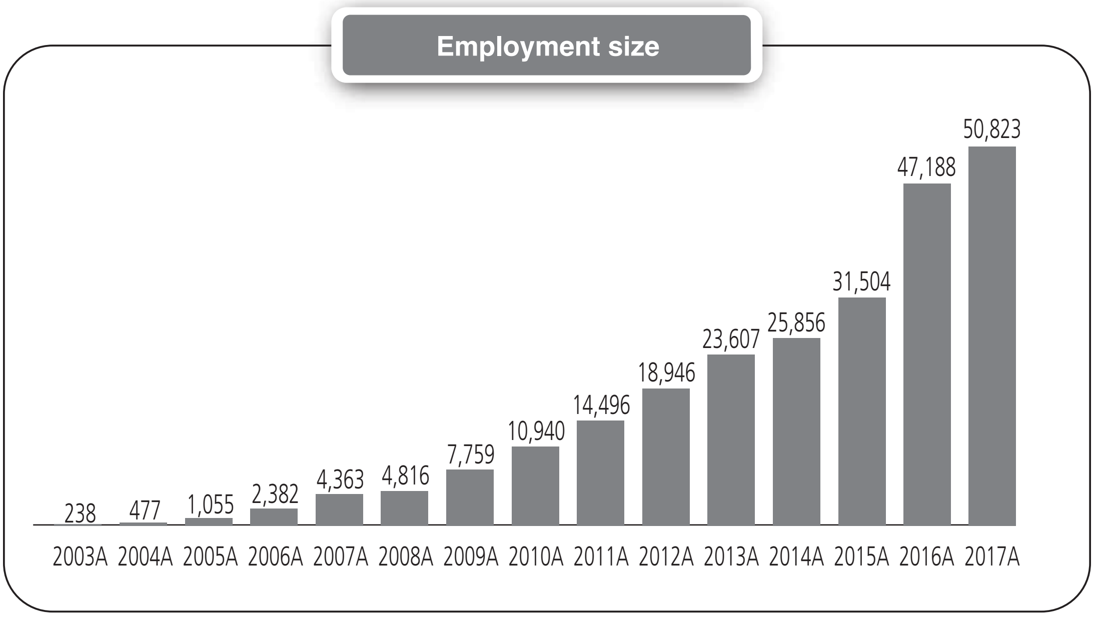
During the reporting period, the Group's businesses were concentrated in the Greater China region, as the Group believes that the Greater China region holds great market potential and growth opportunities for the Group. The Group provides IT services to customers in 32 countries and a group of Fortune 500 companies. In the process the Group has accumulated large global IT servicing experiences. The Group will leverage the "One Belt One Road" initiative to integrate Huawei's products with industries to increase its global blueprint. In the future, the Group will establish global centers in Mexico and Russia and strengthen its global centers in the United States of America, Japan, India, Malaysia, Singapore, etc., using cloud driven digitalization and transformation to fulfill its global blueprint. The Group will become a Global ITS enterprise and establish Chinese influence globally.

HUMAN RESOURCES

As of the end of 2017, the Group has a total of 50,823 employees, representing a YoY increase of 7.7% (2016: 47,188). During the reporting period, the annual average employee size was 49,006, representing a YoY increase of 24.6% (2016: 39,346). The average output per employee increased significantly.

As of the end of 2017, the Group employs 48,415 technical staffs, accounting for 95.3% of the total employees. Of which, 19,546 technical staffs are project managers, consultants, and senior engineers, accounting for 40.4% of the total technical staffs.

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



OPERATING RESULTS

The Group's consolidated income statements in 2016 and 2017 are as follow:

	2017 RMB'000	Percentage of turnover	Percentage of service revenue	2016 RMB'000	Percentage of turnover	Percentage of service revenue
Revenue	9,243,684			6,783,367		
Service Revenue	8,807,512			6,573,770		
Cost of sales and services	(6,493,218)	(70.2%)	(73.7%)	(4,767,529)	(70.3%)	(72.5%)
Gross profit	2,750,466	29.8%	31.2%	2,015,838	29.7%	30.7%
Other income	100,491	1.1%	1.1%	41,908	0.6%	0.6%
Other gains or losses	(4,065)	(0.04%)	(0.05%)	1,807	0.03%	0.03%
Selling and distribution costs	(369,729)	(4.0%)	(4.2%)	(219,022)	(3.2%)	(3.3%)
Administrative expenses	(1,086,325)	(11.8%)	(12.3%)	(806,614)	(11.9%)	(12.3%)
Research and development costs	(567,313)	(6.1%)	(6.4%)	(345,269)	(5.1%)	(5.3%)
Allowance for doubtful debts	(25,862)	(0.28%)	(0.29%)	(17,958)	(0.3%)	(0.3%)
Other expenses	(81,742)	(0.9%)	(0.9%)	(88,012)	(1.3%)	(1.3%)
Finance costs	(102,915)	(1.1%)	(1.2%)	(95,735)	(1.4%)	(1.5%)
Share of results of investments accounted for using the equity method	19,763	0.2%	0.2%	17,492	0.3%	0.3%
Gain arising from changes in fair value of contingent consideration payable an acquisition of a subsidiary	–	–	–	20,152	0.3%	0.3%
Profit before taxation	632,769	6.8%	7.2%	524,587	7.7%	8.0%
Income tax expense	(71,462)	(0.8%)	(0.8%)	(114,754)	(1.7%)	(1.7%)
Profit for the year	561,307	6.1%	6.4%	409,833	6.0%	6.2%
Profit for the year attributable to owners of the Company	565,567	6.1%	6.4%	442,081	6.5%	6.7%

REVENUE

In 2017, the Group's revenue was RMB9,243.684 million (2016: RMB6,783.367 million), representing a YoY growth of 36.3%. The Group's service revenue was RMB8,807.512 million (2016: RMB6,573.770 million), representing a YoY growth of 34.0%. The growth mainly came from increasing business from existing large customers and the high growth of cloud computing, big data, and Jointforce business.

TPG and IIG's revenue and proportion of total revenue in 2017 are as follows:

	2017 RMB'000	Weight	2016 RMB'000	Weight	Growth Rate
TPG	7,858,648	85.0%	5,481,921	80.8%	43.4%
IIG	1,385,036	15.0%	1,301,446	19.2%	6.4%
Total	9,243,684	100%	6,783,367	100%	36.3%

TPG and IIG's service revenue and proportion of the total service revenue in 2017 are as follow:

	2017 RMB'000	Weight	2016 RMB'000	Weight	Growth Rate
TPG	7,615,969	86.5%	5,413,546	82.4%	40.7%
IIG	1,191,543	13.5%	1,160,224	17.6%	2.7%
Total	8,807,512	100%	6,573,770	100%	34.0%

COST OF SALES AND SERVICES

In 2017, the Group's cost of sales and services accounted for 70.2% (2016: 70.3%) of the revenue, representing a YoY decrease of 0.1%. The Group's cost of sales and services were RMB 6,493.218 million (2016: RMB 4,767.529), representing a YoY increase of 36.2%.

GROSS PROFIT

In 2017, the Group's gross profit was RMB 2,750.466 million (2016: RMB 2,015.838 million), representing a YoY growth of 36.4%. The Group's gross margin was 29.8% (2016: 29.7%), representing a YoY increase of 0.1%. In 2017, the Group's gross profit accounted for 31.2% of service revenue (2016: 30.7%), representing a YOY increase of 0.5%.

In the future, the Group will take the following measures to improve gross margins:

1. Increase the Group's overall technological capabilities and management level to enhance the leading position in advantaged industries, improve productization level of service and continue to raise profit level of traditional service;

2. Increase the rate of expansion for Jointforce's Cloud Software Parks, promote the establishment of Cloud IT Center, increase the speed of the Group's platform transformation and use share economy to become more efficient;

3. Increase the proportion of new businesses including cloud, big data, industrial Internet, artificial intelligence, blockchain, etc.);

4. Increase the proportion of overseas businesses and continue with its global blueprint. The oversea businesses have higher margins than that of the Chinese businesses;

5. Increase the proportion of its own IP based solution business. Contracts with the Group's IP's are quicker to scale and have higher gross margins.

OTHER INCOME

In 2017, the Group's other income was RMB100.491 million (2016: RMB41.908 million), representing a YoY increase of 139.8%. The growth was mainly due to the Group improved its market place and thus got more support from government.

OTHER GAINS OR LOSSES

In 2017, the Group's other losses were RMB 4.065 million (2016 other gains: 1.807 million). This is due to the USD and JPY to RMB loss in foreign exchange during the reporting period.

OPERATING EXPENSES

In 2017, the Group's selling and distribution expenses were RMB 369.729 million (2016: RMB 219.022 million), representing a YoY increase of 68.8%. The Group's selling and distribution expenses accounted for 4.0% (2016: 3.2%) of the revenue, representing a YoY increase of 0.8%. The increase is due to Group enhanced sales distribution in major cities around China, energetically exploring the market of government and administration. Meanwhile, the Group increased oversea sales and marketing expense to explore oversea market.

In 2017, the Group's administrative expenses were RMB 1,086.325 million (2016: RMB 806.614 million), representing a YoY increase of 34.7%. This is due to the increase of share option expense during the reporting period. Excluding the share option expense, the Group's administrative expenses increased by 23% YoY. The Group's administrative expenses accounted for 11.8% (2016: 11.9%) of the revenue, representing a YoY decrease of 0.1%. Excluding share option expense, the Groups administrative expenses to revenue decreased by 1.1%, demonstrating the Group's increased efficiency in management.

In 2017, the Group's research and development (R&D) costs were RMB 567.313 million (2016: RMB 345.269 million), representing a YoY increase of 64.3%. The Group's R&D costs accounted for 6.1% (2016: 5.1%) of the revenue, representing a YoY increase of 1.0%. This increase is because the Group invested more into R&D in JointForce, cloud, big data and cloud transformation of solutions.

FINANCE COSTS AND INCOME TAX

In 2017, the Group's finance costs were RMB 102.915 million (2016: RMB 95.735 million), representing a YoY increase of 7.5%. The Group's finance costs accounted for 1.1% (2016: 1.4%) of the revenue, representing a YoY decrease of 0.3%. This is because during the reporting period, the Group repaid some bank loans.

In 2017, the Group's income tax was RMB 71.462 million (2016: RMB 114.754 million), representing a YoY decrease of 37.7%. This decrease is because in 2016 the Group underwent a business restructure and accrued a tax for the change of the equity of the principal legal entity and there was a one-time income tax expense caused by the dividends of several subsidiaries in the Group, causing the tax expense to increase (2016: 52.408 million). There was no such expense in 2017.

OTHER NON-CASH EXPENSES

In 2017, the Group's amortization of intangible assets accounted for 0.9% (2016: 1.3%) of the revenue, representing a YoY decrease of 0.4%. The Group's amortization of intangible assets was RMB 81.742 million (2016: RMB 88.012 million), representing a YoY decrease of 7.1%.

In 2017, the Group's allowance for doubtful debts was RMB 25.862 million (2016: RMB 17.958 million), representing a YoY increase of 44.0%. This increase is because in 2016, the recovery of bad debts corresponding to the proceeds from disposal of available-for-sale investments in previous years resulted in a lower allowance for bad debts in the same period of last year.

In 2017, the Group's share option expense accounted for 1.6% (2016: 0.7%) of the revenue, representing a YoY increase of 0.9%. The Group's share option expense was RMB 149.952 million (2016: RMB 45.285 million), representing a YoY increase of 231.1%. This increase is because the Group issued 215 million shares of options to incentivize the core talents at the end of 2016 and the beginning of 2017. This expense was amortized during the year, causing a significant year-on-year increase in share option expense.

PROFIT OF THE YEAR AND EARNINGS PER SHARE

In 2017, the Group's profit for the year was RMB 561.307 million (2016: RMB 409.833 million), representing a YoY growth of 37.0%. The Group's profit for the year accounted for 6.1% (2016: 6.0%) and 6.4% (2016: 6.2%) of the revenue and service revenue, representing a YoY increase of 0.1% and 0.2%. Excluding the share option expense, the Group's profit for the year was RMB 711.259 million (2016: RMB 455.118 million), representing a YoY growth of 56.3%.

In 2017, the Group's profit for the year attributable to the owners of the Company was RMB 565.567 million (2016: RMB 442.081 million), representing a YoY growth of 27.9%. Further excluding the share option expense, the profit for the year attributable to the owners of the Company was RMB 715.519 million (2016: RMB 487.366 million), representing a YoY growth of 46.8%.

The Group's basic earnings per share (EPS), based on the profit for the year attributable to the owners of the Company, was RMB 23.59 cents (2016: RMB 20.34 cents), representing a YoY growth of 16.0%. Excluding the share option expense, the Group's basic EPS was RMB 29.85 cents (2016: RMB 22.43 cents), representing a YoY growth of 33.1%.

FUNDRAISING ACTIVITIES

During the current and last reporting periods, the Group had conducted several fund raising activities which details are summarized as below:

(1) 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:

	Intended use of proceeds	Actual use of proceeds
(i)	Approximately HK$600,000,000 for mergers and acquisitions and establishing an M&A fund to upgrade new technological capability and strengthen the ecological construction of the cloud services	Not yet utilised as at 31 December 2017
(ii)	Approximately HK$100,000,000 for upgrading the Jointforce to forge a comprehensive platform for the IT industry chain	All used as intended during the year ended 31 December 2017
(iii)	Approximately HK$200,000,000 for replenishing the Company's working capital and repaying certain bank loans with relatively higher interest rates	All used as intended during the year ended 31 December 2017

As at 31 December 2017, 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.

(2) On 3 February 2016, the Group entered into the Subscription Agreement with Huarong International Asset Management Growth Fund (the "Huarong") pursuant to which the Company has conditionally agreed to issue and Huarong has conditionally agreed to subscribe for the total amount of the principal amount is US$70,000,000 (equivalent to approximately RMB458.649 million) of the Convertible Notes due in 2019 ("2016 CN"). The 2016 CN was issued in two installments, namely the First Tranche Convertible Notes and the Second Tranche Convertible Notes.

The total amount of the First Tranche Convertible Notes is US$30,000,000 (equivalent to approximately RMB196.564 million) and the Second Tranche Convertible Notes total principal amount of US$40,000,000 (equivalent to approximately RMB262.085 million) have been issued on 15 February 2016 and 10 March 2016 under the general mandate granted to the Directors at the annual general meeting of the Company held on 18 May 2015.

The intended use and actual use of the proceeds are as follow:

Intended use of proceeds		Actual use of proceeds
(i)	Approximately USD70,000,000 for replenishing the Company's working capital	All used as intended.

On 14 December 2016, the 2016 CN with the principal amount of USD30,000,000 were converted into 77,994,690 ordinary shares. As at 31 December 2017, the outstanding 2016 CN with the principal amount of USD40,000,000 could be converted into 103,992,922 ordinary shares upon full conversion at a conversion price of HK$3.00 per 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 2017 to 31 December 2017, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2017 (the "2016 AGM") (deviated from code provision E.1.2 of the CG Code) due to other business commitment. However, another executive Director attended and acted as the Chairman of the 2016 AGM; (ii) the roles of chairman and chief executive officer were performed by the same individual. 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. (deviated from code provision A.2.1 of the CG Code); (iii) 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 Company's 2016 AGM due to their respective business engagement. Other Board members who attended the 2016 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 2017.

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 (appointed on 3 July 2017)
Mr. Samuel Thomas Goodner

Independent non-executive directors:

Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Lai Guanrong

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 2017, the Board held 10 board meetings, 4 of which were regular board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company, 4 of which were for approving the share allotment upon the exercise of share options during the year ended 31 December 2017, and 2 of which were for other discussions on general operations of the Group. 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 board meetings held for approving the share allotment upon the exercise of share options	Attended/ Number of board meetings held for other discussions on general operations of the Group	Attended/ Total number of board meetings held during the year	Attended/ Number of general meetings held during the year
Executive Directors					
Dr. Chen Yuhong	4/4	4/4	2/2	10/10	0/1
Dr. Tang Zhenming	4/4	4/4	2/2	10/10	1/1
Non-executive Directors					
Dr. Zhang Yaqin	4/4	0/4	0/2	4/10	0/1
Mr. Gao Liangyu	1/1*	0/0*	0/0*	1/1*	0/0*
Mr. Samuel Thomas Goodner	4/4	0/4	0/2	4/10	0/1
Independent Non-executive Directors					
Mr. Zeng Zhijie	4/4	0/4	0/2	4/10	0/1
Dr. Leung Wing Yin Patrick	4/4	4/4	2/2	6/10	0/1
Dr. Lai Guanrong	4/4	0/4	2/2	6/10	0/1

* *Only the meeting held during his tenure is counted*

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, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

Dr. Leung Wing Yin Patrick and Mr. Zeng Zhijie were appointed on 22 March 2006 and 21 April 2003 respectively and have served as independent non-executive Directors 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. Dr. Leung Wing Yin Patrick and Mr. Zeng Zhijie have not engaged in any executive management of the Group. Taking into consideration of their independent scope of works in the past years, the Board considers Dr. Leung Wing Yin Patrick and Mr. Zeng Zhijie to be independent under the Listing Rules despite the fact that they have served the Company for more than nine years.

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 May 2018, the board of Directors resolved that Mr. Gao Liangyu, Mr. Samuel Thomas Goodner, Dr. Leung Wing Patrick and Dr. Lai Guanrong 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.

Pursuant to code provision A.4.3 of the CG Code, if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by Shareholders. Accordingly, Dr. Leung Wing Yin Patrick shall be subject to retirement by rotation and re-election by way of a separate resolution to be approved by the Shareholders at the AGM.

8. ***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 2017, all Directors namely Dr. Chen Yuhong, Dr. Tang Zhenming, Dr. Zhang Yagin, Mr. Samuel Thomas Goodner, Mr. Gao Liangyu, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong 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.

9. ***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.

10. ***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 2017.

D. BOARD COMMITTEES

1. *Remuneration Committee*

During the year under review, the chairman of the remuneration committee of the Company (the "Remuneration Committee") was Dr. Leung Wing Yin Patrick and other members included Dr. Chen Yuhong, Mr. Zeng Zhijie and Dr. Lai Guanrong. Dr. Chen Yuhong is an executive Director, and the remaining three members are independent non-executive Directors.

The Remuneration Committee was established on 28 June 2005. 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.

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

Name of Director	Number of attendance
Dr. Leung Wing Yin Patrick *(Chairman)*	1/1
Dr. Chen Yuhong	1/1
Mr. Zeng Zhijie	1/1
Dr. Lai Guanrong	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 2018.

The Company adopted a new share option scheme on 20 May 2013 to replace the original share option scheme adopted on 2 June 2003, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 38 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 9 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 31 December 2015 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. During the year ended 31 December 2017, the Audit Committee comprised of three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong. Dr. Leung Wing Yin Patrick is the Chairman of the Audit Committee. The Audit Committee met at least on a semi-yearly basis during the year ended 31 December 2017.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2017 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**
Dr. Leung Wing Yin Patrick *(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. 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 year ended 31 December 2017, the Nomination Committee comprised of one executive Director, Dr. Chen Yuhong and three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong. Dr. Leung Wing Yin Patrick is the chairman of the Nomination Committee.

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

Name of Director	Number of attendance
Dr. Leung Wing Yin Patrick *(Chairman)*	1/1
Dr. Chen Yuhong	1/1
Mr. Zeng Zhijie	1/1
Dr. Lai Guanrong	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, 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 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.

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 RMB6.3 million 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 2017. 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 Description	Response Mitigation Plan	Risk Trend
Risk in Market Competition	**New competitors encountered in the business expansion of the Company** With the upgrading transformation of the Company's business and the overseas business expansion, the Company faces direct competition with world-class software companies, which further intensify the competition.	When expanding its overseas business, the Company takes full advantages of its strengths in the domestic market and enhances its overall competitiveness by leveraging on existing customers with strategic cooperation.	Increasing
Risk of Exchange Rate Fluctuation	**Risk of exchange rate fluctuation** International software business is an important integral part of the Company's main business. Exchange rate fluctuations may have adverse effect on the Company's competitive edge against the competitors overseas and on the development of the Company's international business. The fluctuations may also, to a certain extent, affect the Company's revenue and profitability.	The Company will continue to strengthen its analysis and studies on exchange rate fluctuations, continue to adopt appropriate foreign exchange hedging measures and select appropriate currencies for quotations to reduce any possible adverse effects brought about by exchange rate fluctuations.	No change

Risk Type	Risk Description	Response Mitigation Plan	Risk Trend
Risk Relating to Human Resources	**Risk relating to the market's competition for talents** Since the operation of many of the Company's businesses are located in heated markets of advanced technology, there exists a risk that the Company's talents may be approached by other good companies with job offers. The competition is particularly more intense with the high-end talents, resulting in increased effort and costs in the competition for talent resources.	The Company will strengthen the management of its core talents and provide them with sound career development paths. At the same time, the incentive system will be improved by further increasing the investment in staff training, with focus on employees of high-end businesses, with an aim to provide and secure a reserve of talents for the Company's sustainable development.	Increasing

Risk Type	Risk Description	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 preserving the rights, which may bring a certain economic loss to the Company.	The Company will reinforce its employees' awareness of intellectual property rights protection, further strengthen its efforts in monitoring the market for the protection of its intellectual property rights, and take timely actions in preserving and notarizing evidence in relation to the infringement.	Reducing
Risk Relating to Information Security	**Risk relating to information security** The Company highly values the protection of its own and the customers' privacy information and trade secrets. The Company also understands that the leakage, loss or stealing of its own or customers' sensitive information will affect itself and its customers.	The Company has established an information security system. The business operation employees' awareness of information security is strengthened through the provision of regular trainings on the prevention of information security risks. Technologies such as data encryption is used to control data access rights. To provide a higher level of security, "Red Zone" and "Yellow Zone" are established specifically for the research and development works of the Company itself and the customers.	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 2017, 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 2017, 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 2017.

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 2017 are set out in the consolidated statement of comprehensive income on page 89.

The Directors have recommended the payment of a final dividend of HK$0.018 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2017. 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 Friday, 18 May 2018 at 4:00 p.m.. Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid on Wednesday, 13 June 2018 to shareholders whose names shall appear on the register of members of the Company on Friday, 1 June 2018.

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 Tuesday, 15 May 2018 to Friday, 18 May 2018, 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 Monday, 14 May 2018.

(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 Wednesday, 30 May 2018 to Friday, 1 June 2018, 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 Tuesday, 29 May 2018.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2017 are RMB1,667,640,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 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 12 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the reporting year amounted to RMB50,000.

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 180. 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 2017 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 5 and pages 29 to 38 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. The Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period, based on the evaluation of the age of the trade receivable, the credibility of the debtor, payment history and previous revocation experience, to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

(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) **Important events after the reporting date affecting the Group**

No any important events which happened after the reporting date of 31 December 2017 affecting the Group.

(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 5 and pages 29 to 38 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 2017, 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 2017, the Group had a headcount of 50,823 employees (31 December 2016: 47,188). 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 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 2017.

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. Leung Wing Yin Patrick
	Mr. Samuel Thomas Goodner	Dr. Lai Guanrong

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his 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. Mr. Samuel Thomas Goodner has entered into a letter of appointment with the Company as a non-executive Director for a term of two years from 18 May 2016. The appointment of the non-executive directors have continued since expiry of such term.

Mr. Zeng Zhijie was appointed as an independent non-executive Director pursuant to letter of appointment for a term of two years from 20 June 2003, and his appointment have continued since expiry of such term. Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong have not entered into any service agreements as independent non-executive Directors with the Company.

Details of the Directors' remuneration are set out in note 9 to the financial statements. Save as disclosed in note 9 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 2017, 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 2017
Chen Yuhong	Beneficial owner, through controlled corporation, founder of discretionary trust and beneficiary of trust	264,692,861	–	444,692,861	18.51%
	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	0.49%
Zhang Yaqin	Beneficial owner	–	3,000,000 *(note 2)*	3,000,000	0.12%

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 1,292,000,000 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 2017	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2017	Percentage of total issued ordinary share capital of the Company as at 31 December 2017	Total No of underlying ordinary shares interested in	Percentage of total issued ordinary share capital of the Company as at 31 December 2017	*Note*
Chen Yuhong	2.15	10,000,000	(10,000,000)	–	–	–	–	*(2)*
Tang Zhenming	1.78	2,000,000	(2,000,000)	–	–	–	–	*(1)*
	2.15	10,000,000	(10,000,000)	–	–			*(2)*
Zhang Yaqin	3.27	3,000,000	–	3,000,000	0.12%	3,000,000	0.12%	*(3)*

Notes:

(1) These share options were offered on 10 April 2007 under the share option scheme of the Company adopted on 2 June 2003 and accepted on 8 May 2007. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
10/04/2007	09/04/2017	25% of the total number of share options granted
10/04/2008	09/04/2017	25% of the total number of share options granted
10/04/2009	09/04/2017	25% of the total number of share options granted
10/04/2010	09/04/2017	25% of the total number of share options granted

(2) These share options were offered on 23 January 2014 under the share option scheme of the Company adopted on 20 May 2013 and accepted on 31 January 2014. 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
23/01/2014	22/01/2017	30% of the total number of share options granted
23/01/2015	22/01/2017	30% of the total number of share options granted
23/01/2016	22/01/2017	40% of the total number of share options granted

This batch of share options are subject to a vesting condition that the market capitalization of the Company shall reach HK$10 billion or higher for 5 consecutive trading days during the exercise period.

(3) These share options were offered on 16 December 2015 under the share option scheme of the Company adopted on 20 May 2013 and accepted on 31 December 2015. 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
16/12/2015	15/12/2018	30% of the total number of share options granted
16/12/2016	15/12/2018	30% of the total number of share options granted
16/12/2017	15/12/2018	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 2017, 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 2017, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2017 (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 2017, 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 2017, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2017, 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 2017, 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 2017.

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 2017, no more share options granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding and 273,000,000 Shares granted to certain directors, employees and suppliers of the Group pursuant to the New Share Option Scheme were outstanding, representing 11.36% of the total issued ordinary share capital of the Company as at 31 December 2017. The terms on the exercise of such share options granted as set out in note 37 to the financial statements and notes 1 to 3 in the section headed "Directors' Interests in Shares" above.

During the reporting year, an aggregate of 88,100,000 share options were exercised, 5,000 share options were lapsed and 105,000,000 options has been granted under the New Share Option Scheme.

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 2017.

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 2017.

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 40 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 64.53% of the Group's total turnover and the Group's largest customer accounted for approximately 52.71% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 29.56% of the Group's total purchases and the Group's largest supplier accounted for approximately 8.62% 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 2017, 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	444,692,861 (L)	18.51%	16.55%
Dan Capital Kunlun Limited Partnership *(Note 1)*	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	444,692,861 (L)	18.51%	16.55%
Rainbow Faith Limited *(Note 2)*	Trustee	149,430,690 (L)	6.22%	5.56%
Prime Partners Development Limited *(Note 3)*	Beneficial interest	139,072,725 (L)	5.79%	5.18%
UBS Group AG *(Note 4)*	Person having a security interest in shares	3,005,000 (L)	0.13%	0.11%
	Interest of controlled corporations	162,873,450 (L)	6.78%	6.06%
	Interest of controlled corporations	22,904,925 (S)	0.95%	0.85%
UBS AG *(Note 4)*	Beneficial interest	20,335,450 (L)	0.85%	0.76%
	Beneficial interest	19,946,925 (S)	0.83%	0.74%
UBS Asset Management (Hong Kong) Ltd *(Note 4)*	Beneficial interest	39,102,000 (L)	1.63%	1.46%
UBS Asset Management Trust Company *(Note 4)*	Beneficial interest	90,000 (L)	0.00%	0.00%
UBS Fund Management (Luxembourg) S.A. *(Note 4)*	Beneficial interest	100,348,000 (L)	4.18%	3.74%
UBS Fund Management (Switzerland) AG *(Note 4)*	Beneficial interest	40,000 (L)	0.00%	0.00%
UBS Securities LLC *(Note 4)*	Beneficial interest	2,958,000 (L)	0.12%	0.11%
	Beneficial interest	2,958,000 (S)	0.12%	0.11%

* *The total number of issued share consists of 2,402,274,436 Ordinary Shares and Convertible Notes which could be converted into 283,992,922 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 1,292,000,000 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 264,692,861 underlying shares of the Company held by Dr. Chen for the purposes of section 317 of the SFO.

(2) Rainbow Faith Limited is deemed to be interested in 149,430,690 shares in the Company as being a trustee.

(3) Dr. Chen Yuhong is deemed to be interested in 139,072,725 Ordinary Shares and through Prime Partners Development Limited, which is wholly owned by Dr. Chen Yuhong.

(4) UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management Trust Company, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG and UBS Securities LLC are the wholly-owned subsidiaries of UBS Group AG. Accordingly, UBS Group AG is deemed to be interested in the long positions of 165,878,450 shares in the Company and the short positions of 22,904,925 shares in the Company held by these companies as disclosed above.

Save as disclosed above, as at 31 December, 2017, 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

Neither the Company nor any of its subsidiaries purchases, sold or redeemed any listed securities of the Company during the year under review.

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 as an incentive to the Directors and eligible employees, details of the scheme is set out in note 37 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 9 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 2017.

COMPETING INTERESTS

As at 31 December 2017, 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.

AFTER THE REPORTING PERIOD

No any subsequent event of the Group which happened after the reporting date of 31 December 2017.

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, 26 March 2018

Environmental, Social and Governance Report

The Group adheres to the core value of "Keeping True Heart of Kindness, Determination and Perseverance, Striving for Success, Sharing and Growing with the Customers". As we strive to pursue the harmonious developments in corporate value, staff value and social value, we also actively promote and practice respectable corporate behaviors and give emphasis on the development of corporate environment, social responsibility and corporate governance.

In the process of the Group's rapid development of its business, the Board has actively promoted the development of environmental, social and corporate governance, and built a corporate governance structure with clear separation of powers and responsibilities, all of the responsible parties performing their duties, effective checks and balances as well as decision-making with the help of scientific methods. The Board is responsible for the Group's environmental, social and governance strategies and reporting. The Group sorts out and summarizes the social responsibility management tasks for the year, included the environmental, social and governance related issues into this report according to Appendix 27 of the Listing Rules ("Environmental, Social and Governance Reporting Guide").

According to the assessment results of the Group, the table below lists the issues deemed significant by the Group in the areas of environmental, social and governance, and the scope under the "Environmental, Social and Governance Reporting Guide" that these issues belong. This report covers the period from 1 January 2017 to 31st December 2017 (the "Reporting Period") and its scope encompasses the Corporate Headquarters as well as all affiliated enterprises.

Scope of "environmental, Social and Governance Reporting Guide"	Significant issues of the Group
A. Environmental	
A1 Emissions	Carbon emissions, fixed waste management
A2 Use of resources	Utilization of energy and water
A3 The environment and natural resources	Green commuting and green service
B. Social	
B1 Employment	Equal opportunity and diversified employment
B2 Health and safety	Occupational health and staff safety
B3 Development and training	Employee development and training
B4 Labor standards	Prohibition of child labor and forced labor
B5 Supply chain management	Responsibility and green purchasing
B6 Product management	Professional quality service and data privacy management
B7 anti-corruption	Anti-corruption
B8 Community Investment	Community welfare

A. ENVIRONMENT

The Group actively responds to the nation's call to "fight for ecological and environmental protection", and always considers the sustainable development of the society when formulating business strategies. Through the promotion of green and innovative services to support the national environmental protection policies, we actively fulfill our social responsibilities. The Group strictly complies with environmental laws and regulations such as the "PRC Environmental Protection Law" (中華人民共和國環境保護法), the "PRC Atmospheric Pollution Prevention Law" (中華人民共和國大氣污染防治法). During the Reporting Period, there was no incident of non-compliance with any relevant environmental laws and regulations in relation to the Group.

A1 Emissions

As a corporation providing software and information technology services, the Group's daily operation has little impact on the environment while its emissions are limited to greenhouse gases, domestic waste water, discarded computers (electronic garbage) from daily operating office and consumer garbage that may be hazardous or non-hazardous. Nevertheless, the Group still focuses on nurturing and strengthening the employees' awareness of environmental protection in their daily work process, and actively implement the Company's environmental protection measures, with an aim to lowering the emission of greenhouse gases and reducing the emissions of hazardous or non-hazardous wastes. In particular, the Company adopts the following measures to properly deal with the wastes generated from office operation:

- Scrapped computers are disassembled for reuse of their parts, so as to reduce procurement cost and asset depletion. During the reporting period, the branches at Xian, Shenzhen, Wuhan, Guangzhou and Chengdu disassembled and re-used 136 pieces of RAMs, 22 units of power source units, 34 hard disks, and reused some of the motherboards and fans. A total of 79 computers were successfully returned to the workforce after reassembling the old computer parts.

- Domestic garbage and electronic wastes are classified for ease of recycling. Clear markings are provided for the indication of electronic wastes to facilitate classification. Qualified enterprises are identified for common collection and reuse. For example, keyboard and mouse recycling boxes are set up in the office for the periodic and orderly collection of functioning keyboards and mouse devices to facilitate re-use. IT department is also requested to retrieve the functioning RAMs from broken desktop units returned by employees for re-use.

- The damaged chairs in the office are dismantled and reassembled and spare parts are purchased for repair and maintenance to achieve the reuse of resources and reduction of solid wastes. A total of 1,342 chairs were repaired during the year and 840 rolls of garbage bags were saved in the whole year as a result of retaining and re-using small garbage bags.

- Electronic conference systems are fully utilized. Meetings are conducted by giving priorities to video and telephone conferencing to minimize carbon emissions resulted from unnecessary travelling.

Disclosure of Emission Information in 2017

Indicator	Number
Greenhouse gas emissions from direct sources (tons CO_2 equivalent)	81
Greenhouse gas emissions from indirect sources (tons CO_2 equivalent)	12,948
Greenhouse gas emissions due to employees' business trips (tons CO_2 equivalent)	4,384
Total greenhouse gas emission (tons CO_2 equivalent)	17,413
Greenhouse gas emission per million dollars operating income (tons CO_2 equivalent/$million)	1.88
Total emission of domestic waste water (tons)	188,102
Total domestic garbage from office operation (tons)	3,926
Number of discarded monitors (pieces)	689

Note: The scope of the statistics on the Company's emissions includes the actual data generated by the subsidiaries of Chinasoft International Group registered in the PRC but does not include the data from overseas offices.

A2 Use of Resources

The Group advocates Green Office Practices and incorporates the low carbon footprint philosophy into daily operations so that the Group can maximize resource savings, achieve energy conservation and low carbon emission. Through the establishment of the ESG management indicator system that requires the comprehensive collection of environmental indicators, the Company has laid a foundation for the implementation of environmental indicators management. The Group has formulated a series of regulations and management measures, which are fully implemented in different aspects of daily office work, with an aim to reducing resource consumption and conserving energy. In addition to using LED energy-saving lights and posting water-saving posters, these measures include:

- On the front panels of all air conditioners on all sites in the country, signs with suggestion of recommended temperature at 24-26 degrees were posted, which achieved results in energy conservation and emission reduction.

- Paperless office was implemented to encourage the use of electronic documents as much as possible. Except for important documents, recycled papers were used for ordinary printing so as to reduce the use of paper, save costs and protect the environment. About 1,900 Kg of papers were saved, representing a year-on-year reduction of 6% on paper usage.

- Used facilities including office furniture, office equipment, conference equipment, network equipment and supporting equipment should be re-used as much as possible when setting up new office sites

Disclosure of Resource Usage Information in 2017

Indicator	Number
Consumption of gasoline (litres)	37,067
Consolidated energy consumption (tons standard coal)	2,421
Consolidated energy consumption per million dollars operating income (tons standard coal/$million	0.26
Water consumption (tons)	221,296
Consolidated water consumption per million dollars operating income (tons/$million)	23.94
Electricity consumption (10,000 KWh)	1,937
Consolidated electricity consumption per million dollars operating income (10,000 KWh/$million)	0.21

Note: The scope of the statistics on the Company's emissions includes the actual data generated by the subsidiaries of Chinasoft International Group registered in the PRC but does not include the data from overseas offices.

A3 The Environment and Natural Resources

The Group places heavy emphasis on environmental protection. As a corporation providing software and information technology services, we do not involve in large-scale production processes or businesses that have significant impact to the environment and natural resources. The Group strives to provide green services to the customers with an aim to reducing the impacts of the Company's operation on the society and the environment. Through innovation, the Group continuously improves the resource utilization rates of its products, the Company's operation efficiency and reduces its carbon foot-prints and negative impacts on the environment. The Company continuously delivers innovations and devotes itself to environmental protection by conducting developments on highly efficient products, and strives to assist various industries as well as the society in reducing carbon emission through green ICT technology. As a long-established cooperation partner of Huawei's, the Company continued to promote the business of big data and cloud disks in the financial industry and the government nation-wide throughout the year. During the review period, the actions adopted by Company in relation to its business activities towards environmental protection and natural resources have achieved excellent results.

B. SOCIAL

In the process of its high quality development, the Group is attentive to the needs of employees, customers, suppliers, social community and related stakeholders. It launches its operations in compliance with the laws and regulations, and strives to improve the well-being of employees, satisfaction of cooperation partners, and social recognition for the optimization of benefits and harmonious development of all stakeholders.

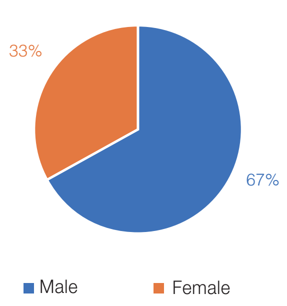
B1 Employment

Under the premise of compliance with national laws and regulations and combined with the actual conditions of the Company, the Group has revised and optimized the "Employee Handbook" through the organization of staff representative meetings. This manual clearly sets out the establishment of equal employer-employee relationship, ensures the benefits of the employees and defines the core values of the Company.

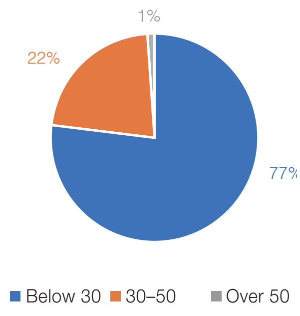
By adhering to the philosophy of "talents are our core competitiveness", the Group does not discriminate against any persons because of their gender, nationality, ethnicity, or physical conditions, and always applies the principle of equal opportunity when hiring. As at 31 December 2017, the Group had a total staff of 50,823, distributed in different regions of the country and different countries of the world. The total number of ethnic minorities in the workforce, including Hui, Tujia, Manchu, Zhuang was 2,304. We also employed 212 disabled employees.

The Group upholds the people-oriented culture, emphasizes on the nurturing of talents, and focuses on the channels of diversified development for talents. The male and female ratios, the age distribution, geographical distribution and academic distribution of Company's employees are indicated as below:

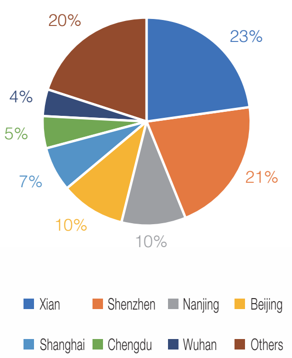
Male and Female Employees Relation



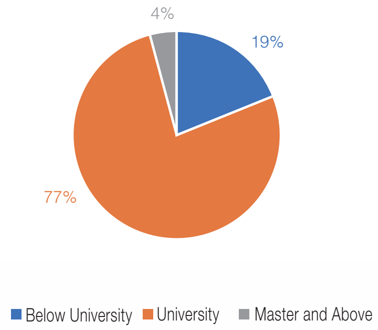
Employee Age Distribution



Employees Geographical Distribution



Employees Education Distribution



The Group recruits new graduates from campus as well as a variety of talents from the society, so as to provide the Company with new blood and promote diversity in the workforce. During the Reporting Period, we hired 2,366 fresh graduates.

Campus Recruitment Drive 2018

Campus Recruitment at Xian University of Posts and Telecommunications

The Group advocates "the coding of future through close working relationship and sharing" and encourages that the employees and the Company should "create, share and grow together". During the review period, the Group hosted the first Global Programmers' Festival in Xian, focusing on the development opportunities brought by the "One Belt One Road" initiative, with the core theme of "Coding the Future" and the theme for the year "Coding the Future with Digital Silk Road". The Company also organized a series of interesting recreational and sports activities, including an annual networking event and team building, with an aim to enriching the lives of the employees, improving their cohesiveness and sense of belonging, so that Chinasoft International can become a big, harmonious family for the employees.

The First Global Programmers' Festival

JointForce Carnival Event

Annual Networking Event Promotion Poster

Activity of the Chongqing IoT Team of the Hi-tech Group

The Group has established a compensation incentive system based on competitiveness, fairness and motivation, as well as a performance management system which is result-oriented, objective and fair and with specific assessment criteria for different categories and levels. With these systems, fairness and democratic elements are promoted in the management of the workforce, employees' enthusiasm for work is inspired and work efficiency is improved, such that the Company's yearly plan can be accomplished and the overall targets can be achieved. During the reporting period, the Group successfully held the event of "Outstanding Programmer Award" (功勳程序員) and the "Outstanding Staff Award" ceremony.

Outstanding Programmer Awards Presentation Ceremony

Outstanding Staff of the Year 2017 received recognition

The Group strictly complies with the "PRC Labor Law" (《中華人民共和國勞動法》), the "PRC Labor Contract Law" (《中華人民共和國勞動合同法》), the "Regulations of Insurance for Employment Injury" (《工傷保險條例》) and other such laws and regulations and protects the legal rights of the employees according to the laws. At the same time, the Company further revised and optimized the contents of the "Employee Handbook", clearly defining the employer-employees relationship and the management of aspects such as discipline and attendance, as well as providing a standard to the business units of all the subsidiaries to govern the financial reimbursement process.

B2 Health and Safety

The Group adheres to the style of people-oriented management, and puts priority on the employee's health and safety. The Group cares about the employees' working environment and the improvement of facilities, actively creating an organizational atmosphere of harmony and care as well as organizing various activities for the employees' physical and mental well-being. During the reporting period, the Group took care of the employees' health and safety through a number of actions including the arrangement of psychological assessments for new job candidates and weekly updates of short stories on Wechat public media platform, organizing EHS training for the management personnel, providing medical checks for new recruits and regular medical checks for existing employees and arranging for commercial insurance for the employees.

Free clinic and a Seminar titled "Taking Care of My Health, Showing Care for Your Health"

B3 Development and Training

The Group puts emphasis on human resources development and training. Taylor-made for different levels, positions and roles, training courses are designed to uplift the abilities of the employees and to help the employees realise their own values. For the new recruits, the Group has set up a study platform called "What New Employees Ought to Know, Ought to Do". For the technical personnel, a number of technical and professional training courses have been set up. For the managers, they are provided with trainings such AAR and seminars. During the reporting period, the Group organized a total of 510.5 man-days of training for middle and top management, AAR training for managers with 400 attendees and training on project management with 12,571 attendees.

Mulesoft Training

Advanced Seminar for Managers

B4 Code of Conduct in Labor Relations

The Group strictly complies with the "PRC Labor Law", the "PRC Labor Contract Law", the "Individual Income Tax Law of the PRC" (《中華人民共和國個人所得稅法》), requirements on payment of wages as well as laws and regulations on minimum wage in different countries. We strictly comply with the standards, guidelines and regulations with respect to the prevention of child labor and forced labor, which are internationally accepted or practiced in the countries or places of operation. During the reporting period, there were no cases of violation against the standards, guidelines and regulations with respect to the prevention of child labor and forced labor, which are internationally accepted or practiced in the countries or places of operation.

B5 Supply Chain Management

The Group strictly administers a series of management mechanisms with respect to suppliers' eligibility standards, periodic assessment and exit. We actively communicate and cooperate with the suppliers, and drive for the uplifting of the suppliers' management capabilities to achieve a win-win situation. In the process of supplier selection, the Group always upholds the idea of co-development with its cooperation partners, and encourage the partners to enhance their environmental protection management, by giving entry priority to suppliers of energy conservation and environmental protection products, that are recognized by relevant authorities of the government or by the Group's companies. During the time of procurement from suppliers, the Group was not aware that any key suppliers had any significant, actual or potential, negative impact on business ethics, environmental protection, human rights and labor practices.

B6 Product Responsibility

Chinasoft International always adheres to the idea of "sharing success with clients" as the purpose of the Group's development. We are convinced that the success of our clients means the success of our corporation, and in recent years have been emphasizing the customer-centric business philosophy in our operation at all levels of the Group. From the level of Group's top management to the senior managers of the subsidiaries, we all seek to obtain comments and suggestions from the customers in regard to our products and services on the basis of enhancing cooperation with the customers, and request the development department to optimize and improve the quality of products and services according to the requests of the customers. Various business units also timely respond to the needs of the customers in resolving the problems of the users by making full use of various communication channels.

Chinasoft International fully respects the values and rights of the customers' information assets, and in the process of providing our customers with products and services, we strictly comply with the customers' information security management systems and standards. The measures we take include the heavy investment of funds in a number of ODC (Outsourced Development Center) hardware and software dedicated to the improvement of technology security; the systematic and periodic promotion of information security among the employees; as well as the proactive organization and execution of information security audits. A number of subsidiaries under the Group have successively passed ISO27001 (Information Security Management) certification, laying a foundation for the Company in protecting the customers' information assets in its management systems and its daily operations. As more and more products and services are provided to customers in the fields of big data and cloud services, our major subsidiaries have actively seeked out for the certification of information security service qualifications by ISCCC (China Information Security Certification Center), and uplift their reputation and capabilities in the areas of secured system integration as well as secured operation and maintenance services, so as to gain further trusts from the customers. In the development process of platform products and application products, necessary security level tests are added to the products to ensure the products' security in public network environment.

Independent intellectual property rights are an important asset of Chinasoft International. In recent years, more than one hundred applications software products and platform software products have obtained copyright certificates and corresponding product registration certificates. The Group has perfected the procedures for the establishment of product development projects to ensure the optimal management of the targets of expected R&D investment returns. At the same time, through the investments in the R&D environment, the efficiencies and qualities in the R&D processes were improved and the protection of our own information assets was strengthened.

During the reporting period, Chinasoft International was not aware of any cases of violations in relation to product and service responsibilities.

B7 Anti-corruption

The Group actively responds to the government's call to strengthen the monitoring on corruption with the idea of "no restricted area, all-encompassing and zero toleration", and formulated stringent anti-corruption and anti-bribery policies, so as to fight any form of corruptive behavior decisively. Meanwhile, the Group also entered into inti-corruption agreements with relevant cooperation partners according to sunshine procurement and green procurement, demonstrating the management's determined action in fighting against corruption.

The Group has implemented a sound internal audit and monitoring system, made improvement to organizational systems, effectively launched the works on internal supervision and anti-corruption management, which include the formulation of the "Guidelines on Business Conduct for Chinasoft Management Personnel" (《中軟國際管理人員商業行為準則》) and the establishment of a complaints and reporting system which clearly defines the acceptance, investigation and feedback procedures for employees' complaints and reports. Meanwhile, the management personnel of Chinasoft International are required to sign responsibility undertakings to determinedly fight against corruption and avoid falsification, and promote the Group's legal business operation. During the reporting period, Chinasoft International was not aware of any cases of violations in relation to relevant laws and regulations.

B8 Community Benefits

Chinasoft International has always been thankful to the society, and is working hard to give back to the community by actively involving in various kinds of public welfare activities. The Group actively responds to the call of the central government by participating in the poor alleviation work. As one of the corporations in the Xian Software Park, the Group cooperated with Xian Software Park and explored the new approaches to poverty alleviation, which included "Innovation and Entrepreneurship + Poverty Alleviation" and "Industrial Poverty Alleviation Cooperation", and helped in the constant development of Xian Software Park's poverty alleviation work. During the reporting period, the Group helped its designated poverty alleviation village, Tianjing Village in Wangchuan Township, Lantian County, by making plans on new ideas for the village's poverty alleviation. Together with Jiayi Property Company, charity events such as "You and Me. Love Will Take Care of Tomorrow" were held. Through poverty alleviation, donations to support education and concerns over special group, the Group continuously passes on its care and positive energy to the society.

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 55, 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 55, 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 Director

Dr. Zhang Yaqin (張亞勤), aged 52, was appointed on 31 December 2008. Dr. Zhang Ya-Qin is currently the President of Baidu Corporation, in charge of emerging business and basic technology system and also the Chairman of Baidu R&D Centre in U.S. Prior to joining Baidu, Dr. Zhang was Microsoft's Corporate Vice President and Chairman of Asia R&D Group, leading Microsoft's R&D efforts in Asia-Pacific, Microsoft's largest R&D establishment outside of US with over 3,000 scientists and engineers. Over 15 year tenure at Microsoft, he has taken various key positions, including the Managing Director of Microsoft Research Asia (2000-2004), Chairman of Microsoft China (2007-2012), Corporate Vice President of Mobile and Embedded Products (2004-2006), and Asia R&D Chairman until September 2014. Before joining Microsoft, Dr. Zhang was Director of the Multimedia Technology Laboratory at Sarnoff Corp. Princeton, New Jersey (RCA Laboratories), where he oversaw the development of several significant digital video encoding and communications technologies for commercial and surveillance/security systems. Prior to that, from 1989 to 1994, Dr. Zhang was a senior technical staff member at GTE Laboratories Inc. (now part of Verizon) Corp. in Waltham, MA. Dr. Zhang is a Fellow of Institute of Electrical and Electronics Engineers (IEEE) and has published more than 500 papers in leading international conferences and journals. He has been granted more than 60 US patents in digital video, Internet, multimedia, wireless and satellite communications. He was a key contributor to the ISO/MPEG and ITU standardization efforts in digital video and multimedia. In 1997, he became the youngest ever Fellow of IEEE and has served as editor-in-chief for several influential IEEE journals. Currently, Zhang serves on the Board of Directors of five high-tech IT companies. He is an honorary or guest professor at more than 20 prestigious universities, and is an advisor to several government agencies. Zhang is also the vice Chairman of Committee 100, a group of leading Chinese-Americans to promote the political, scientific, social, and economic exchanges between the US and China. Dr. Zhang received his B.S. and M.S. in Electrical Engineering from the University of Science and Technology of China (USTC) in 1983 and 1985. He received his Doctor of Science in Electrical Engineering from George Washington University, Washington D.C. in 1989.

Mr. Gao Liangyu (高良玉), aged 52, 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.

Mr. Samuel Thomas Goodner, aged 51, is the President of FlashParking Inc., a technology company providing hardware and SaaS solutions to parking operators and building owners across North America to help them manage their valet, surface lot, and parking garage operations. Mr. Goodner is the founder and former CEO of Catapult Systems, a Microsoft-focused information technology consulting firm with over 400 employees and 9 regional offices across the United States. Mr. Goodner founded Catapult Systems in 1993 at the age of 26. Prior to starting Catapult, he worked in business development at Service Systems International and developed software applications for Dell Computer Corporation. Over the past 20 years, Mr. Goodner also founded two software product companies, PowerDOC and Inquisite, and launched several service brands under the Catapult Systems umbrella including Mobile Alchemy, a mobile application development firm, and Slingrock, an interactive, branding, design and marketing agency. Mr. Goodner served as a mountain infantry officer in the Swiss Army, is a graduate of the MIT/Inc Birthing of Giants program, and the YPO Stanford Graduate School of Business Program. He is a member of the Austin chapter of the Young Presidents' Organization (YPO Gold). He has been repeatedly recognized for his innovation and leadership and was a recipient of the Ernst & Young Entrepreneur of the Year award in 2008. Mr. Goodner holds a Bachelor of Science in Computer Science from Texas A&M University.

Independent Non-executive Directors

Mr. Zeng Zhijie (曾之杰), aged 50, was appointed on 21 April 2003. Mr. Zeng is currently the chairman and a managing partner of Shenzhen Hongtai Fund (深圳鴻泰基金), and the chairman of Houwang Investment (厚望投資). He has been active in the venture capital industry for twenty years. Since 2008, Mr. Zeng has taken the positions of senior managing director of CITIC Capital Holdings Limited, and general manager of Kaixin Investment Co., Ltd. He was responsible for venture capital and growth stage business. From 2001 to 2008, he was a managing director of Walden International, an established global venture capital firm. He was mainly responsible for venture investments in China and the Asia-pacific region. Prior to Walden International as the general manager, Mr. Zeng worked for CITIC Pacific Ltd. in Hong Kong and Mitsubishi Corporation in Tokyo, Japan. At present, Mr. Zeng serves as independent director for three listed companies: Chinasoft International Limited (SEHK), Smit Holdings Limited (SEHK) and CTS International Logistics Corp Ltd. (Shanghai Stock Exchange). He also serves as independent director of United Overseas Bank. Mr. Zeng also serves as the 1st Co-chairman of the Venture Capital Association of Investment Association of China, the executive director of AAMA China branch and board member of WRSACC 2005 Committee. He was listed in Thousand Talents Program and Beijing Recruitment Program of Global Experts organized by Organization Department of the CPC Central Committee. 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. Leung Wing Yin Patrick (梁永賢), aged 61, was appointed on 22 March 2006. Dr. Leung has many years working experience in internal auditing and corporate finance in banks. He holds a doctor's degree in accounting from the University of New South Wales, Australia, and is a member of Certified Public Accountants of Australia, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. Dr. Leung is an Assistant Professor and a Doctor Student Supervisor at the School of Accounting and Finance of the Hong Kong Polytechnic University. Dr. Leung previously worked as a consultant in a firm of Certified Public Accountants and as a Senior Lecturer at Charles Sturt University, Australia and the City University of Hong Kong.

Dr. Lai Guanrong (賴觀榮), aged 55, 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). 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). 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 provincialowned 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.

SENIOR MANAGEMENT

Mr. Simon Chung (鍾鎮銘), aged 56, is the global chief operating officer of the Company and the chief executive officer in ITO business of Japan. He is responsible for the overall daily operation of the Group. 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 and finance 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 55, 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 38, 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 89 to 179, which comprise the consolidated statement of financial position as at 31 December 2017 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 2017, 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 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 concerning the discount rates and growth rates 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 14 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 assumptions used, including specifically the growth rates used in preparing the impairment testing model based on our knowledge on the business and industry; • Performing a retrospective review, comparing the historical figures with prior year's budget; • Performing an independent assessment of the discount rates used in preparing the impairment testing model with the assistance of our internal 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 under the percentage of completion method which requires a significant degree of management judgement and may be subject to management bias. The revenue recognition requires management to make significant estimates of the contract costs, outcomes and expected costs to complete the contracts based on the budgets prepared for the contracts. Details of the 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 Group's critical judgements used on estimation of contract outcomes and costs to complete the contract; • Assessing the reasonableness of changes if any on the expected costs to complete the contracts; • Assessing the stage of completion through obtaining the Group's calculations and agreeing the inputs of the contract costs to supporting evidence; • Recalculating the percentage of completion rate and revenue recognised for project-based development contracts; • 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.

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

- 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.

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
26 March 2018

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Turnover	5	**9,243,684**	6,783,367
Cost of sales and services		**(6,493,218)**	(4,767,529)
Gross profit		**2,750,466**	2,015,838
Other income		**100,491**	41,908
Other gains or losses		**(4,065)**	1,807
Selling and distribution costs		**(369,729)**	(219,022)
Administrative expenses		**(1,086,325)**	(806,614)
Research and development costs		**(567,313)**	(345,269)
Allowance for doubtful debts		**(25,862)**	(17,958)
Other expenses		**(81,742)**	(88,012)
Finance costs	6	**(102,915)**	(95,735)
Share of results of investments accounted for using the equity method		**19,763**	17,492
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary		**–**	20,152
Profit before taxation		**632,769**	524,587
Income tax expense	7	**(71,462)**	(114,754)
Profit for the year	8	**561,307**	409,833

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		**(52,931)**	19,497
Other comprehensive (expense) income for the year, net of tax		**(52,931)**	19,497
Total comprehensive income for the year		**508,376**	429,330
Profit (loss) for the year attributable to:			
Owners of the Company		**565,567**	442,081
Non-controlling interests		**(4,260)**	(32,248)
		561,307	409,833
Total comprehensive income (expenses) attributable to:			
Owners of the Company		**512,636**	461,578
Non-controlling interests		**(4,260)**	(32,248)
		508,376	429,330
Earnings per share	11		
Basic		**RMB0.2359**	RMB0.2034
Diluted		**RMB0.2311**	RMB0.1979

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	12	852,519	819,799
Intangible assets	13	179,450	231,075
Goodwill	14	996,789	1,008,479
Investments accounted for using the equity method	15	133,218	104,190
Available-for-sale investment	16	65,342	61,965
Prepaid lease payments	17	37,863	38,723
Other receivable	19	30,000	30,000
Deferred tax assets	27	7,504	7,646
		2,302,685	2,301,877
Current assets			
Inventories	18	26,024	20,893
Trade and other receivables	19	1,960,240	2,092,700
Bills receivable		11,909	23,186
Prepaid lease payments	17	860	860
Amounts due from customers for contract work	21	2,579,998	1,430,206
Amounts due from related companies	22	83,854	59,939
Pledged deposits	23	658	670
Bank balances and cash	23	1,785,305	1,298,972
		6,448,848	4,927,426
Current liabilities			
Amounts due to customers for contract work	21	44,572	122,271
Trade and other payables	24	1,584,295	1,203,843
Bills payable	25	20,473	812
Amounts due to related companies	22	59,151	37,983
Dividend payable		78	83
Taxation payable		157,699	130,450
Borrowings	26	685,750	922,452
Consideration payable on acquisition of a subsidiary		–	21,035
		2,552,018	2,438,929
Net current assets		3,896,830	2,488,497
Total assets less current liabilities		6,199,515	4,790,374

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deferred tax liabilities	27	**15,904**	18,943
Convertible loan notes	28	**953,645**	244,296
Borrowings	26	**–**	194,496
		969,549	457,735
		5,229,966	4,332,639
Capital and reserves			
Share capital	29	**110,283**	106,387
Share premium	30	**2,809,329**	2,652,697
Reserves	30	**2,246,189**	1,505,130
Equity attributable to owners of the Company		**5,165,801**	4,264,214
Non-controlling interests		**64,165**	68,425
Total equity		**5,229,966**	4,332,639

The consolidated financial statements on pages 89 to 179 were approved and authorised for issue by the board of directors on 26 March 2018 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 2017

	Attributable to the owners of the Company												
	Share capital RMB'000	Share premium RMB'000 (note 30)	Other reserves RMB'000 (note 30)	Translation reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 30)	Statutory enterprise expansion fund RMB'000 (note 30)	Statutory surplus reserve fund RMB'000 (note 30)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	95,645	2,106,029	25,989	1,960	50,605	13,676	15,793	26,749	87,133	823,626	3,247,205	239,065	3,486,270
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	442,081	442,081	(32,248)	409,833
Other comprehensive income for the year													
– Exchange differences arising on translation of foreign operations	–	–	–	19,497	–	–	–	–	–	–	19,497	–	19,497
Total comprehensive income (expense) for the year	–	–	–	19,497	–	–	–	–	–	442,081	461,578	(32,248)	429,330
Issue of ordinary shares upon exercise of share options	1,365	60,588	–	–	(6,766)	–	–	–	–	–	55,187	–	55,187
Recognition of share option expenses	–	–	–	–	45,285	–	–	–	–	–	45,285	–	45,285
Cancellation of share options	–	–	–	–	(784)	–	–	–	–	784	–	–	–
Issue of ordinary shares	3,602	185,156	–	–	–	–	–	–	–	–	188,758	–	188,758
Acquisition of additional equity interest of subsidiaries	–	–	(148,758)	–	–	–	–	–	11,773	86,619	(50,366)	(138,392)	(188,758)
Issue of convertible loan notes	–	–	–	–	–	42,519	–	–	–	–	42,519	–	42,519
Conversion of convertible loan notes	5,775	300,924	–	–	–	(32,651)	–	–	–	–	274,048	–	274,048
Appropriations	–	–	–	–	–	–	–	–	30,995	(30,995)	–	–	–
At 31 December 2016	106,387	2,652,697	(122,769)	21,457	88,340	23,544	15,793	26,749	129,901	1,322,115	4,264,214	68,425	4,332,639
Profit for the year										565,567	565,567	(4,260)	561,307
Other comprehensive expense for the year													
– Exchange differences arising on translation of foreign operations	–	–	–	(52,931)	–	–	–	–	–	–	(52,931)	–	(52,931)
Total comprehensive (expense) income for the year	–	–	–	(52,931)	–	–	–	–	–	565,567	512,636	(4,260)	508,376
Issue of ordinary shares upon exercise of share options	3,896	181,651	–	–	(22,159)	–	–	–	–	–	163,388	–	163,388
Recognition of share option expenses	–	–	–	–	149,952	–	–	–	–	–	149,952	–	149,952
Cancellation of share options	–	–	–	–	(3)	–	–	–	–	3	–	–	–
Issue of convertible loan notes	–	–	–	–	–	100,630	–	–	–	–	100,630	–	100,630
Appropriations	–	–	–	–	–	–	–	–	17,554	(17,554)	–	–	–
Dividend paid to ordinary shareholders	–	(25,019)	–	–	–	–	–	–	–	–	(25,019)	–	(25,019)
At 31 December 2017	110,283	2,809,329	(122,769)	(31,474)	216,130	124,174	15,793	26,749	147,455	1,870,131	5,165,801	64,165	5,229,966

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**632,769**	524,587
Adjustments for:			
Depreciation of property, plant and equipment		**94,920**	56,192
Amortisation of intangible assets and prepaid lease payments		**82,602**	88,155
Finance costs		**102,915**	95,735
Allowance for doubtful debts		**25,862**	17,958
Share option expenses		**149,952**	45,285
Interest income		**(5,727)**	(4,781)
Share of results of investments accounted for using the equity method		**(19,763)**	(17,492)
Loss on disposal of property, plant and equipment		**619**	103
Gains arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary		**–**	(20,152)
Exchange losses (gains)		**3,446**	(1,910)
Operating cash flows before movements in working capital		**1,067,595**	783,680
Decrease (increase) in trade and other receivables		**102,678**	(740,076)
(Decrease) increase in amounts due to customers for contract work		**(77,699)**	34,521
(Increase) decrease in amounts due from customers for contract work		**(1,149,792)**	86,454
Increase in trade and other payables		**411,520**	207,802
Decrease (increase) in bills receivable		**11,277**	(14,358)
(Increase) decrease in inventories		**(5,131)**	9,367
Increase (decrease) in bills payable		**19,661**	(1,308)
Cash generated from operations		**380,109**	366,082
Income taxes paid		**(48,045)**	(74,348)
Net cash generated from operating activities		**332,064**	291,734

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Investing activities			
Purchases of property, plant and equipment		**(160,137)**	(303,857)
Placement of pledged deposits		**(1,796)**	(10,579)
Development costs paid		**(30,117)**	(35,425)
Investment in available-for-sale investment		**–**	(12,814)
Consideration payment on acquisition of a subsidiary		**(21,035)**	–
Subscription of investments accounted for using the equity method		**(10,389)**	(9,900)
Advances to related companies		**(23,915)**	(10,077)
Withdrawal of pledged deposits		**1,808**	54,800
Proceeds from disposal of subsidiaries in prior year		**3,920**	25,665
Proceeds from disposal of available-for-sale investment in prior year		**–**	44,568
Interest received		**5,727**	4,781
Proceeds from disposal of property, plant and equipment		**381**	242
Dividend received from investments accounted for using equity method		**1,125**	2,059
Net cash used in investing activities		**(234,428)**	(250,537)
Financing activities			
Dividend paid	39	**(25,019)**	–
New borrowings raised	39	**1,989,822**	3,092,248
Proceeds from issuance of ordinary shares		**–**	201,727
Acquisition of non-controlling interests		**–**	(201,727)
Proceeds from exercise of share options		**161,233**	55,187
Issue of convertible loan notes		**781,290**	458,649
Advance from related companies	39	**21,168**	3,316
Repayment of borrowings	39	**(2,421,020)**	(3,535,812)
Interest paid on convertible loan notes	39	**(11,467)**	(20,200)
Other interest paid	39	**(63,583)**	(67,885)
Net cash generated from (used in) financing activities		**432,424**	(14,497)
Net increase in cash and cash equivalents		**530,060**	26,700
Cash and cash equivalents at beginning of the year		**1,298,972**	1,265,831
Effect of foreign exchange rate changes		**(43,727)**	6,441
Cash and cash equivalents at end of the year, represented by bank balances and cash		**1,785,305**	1,298,972

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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

Amendments to HKAS 7 Disclosure Initiative

The group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The Group's liabilities arising from financing activities consist of borrowings, convertible loan notes and amounts due to related companies. A reconciliation between the opening and closing balances of these items is provided in note 39. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 39, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
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 2021

Other than described below, the directors of the Company anticipate that the application of the new and revised HKFRSs that have been issued but are not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairments for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 16 qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. This will affect the amounts recognised in the Group's other comprehensive income.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

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

HKFRS 9 Financial Instruments – continued

Impairment

In general the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provision upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would not be significantly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

HKFRS 16 Leases

HKFRS 16 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.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement 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. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of the lease modifications, amongst other. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payment in relation to lease liabilities will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accountng, HKFRS 16 substantially carries forwards the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB229,323,000 as disclosed in note 35. A prelimiary assessment indicates that these arrangements will meet the definition of a lease upon application of HKFRS 16, the Group will recognised a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases. Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 within the scope of HKAS 17 *Leases*, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of consolidation – continued

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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing 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 HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations

Acquisitions of businesses 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations – continued

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.

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.

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). Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGU (or any of the CGUs within group of CGUs in which the Group monitors goodwill), the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

Interests in associates and joint ventures

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interests in associates and joint ventures – continued

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures 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 or a joint venture 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 or a joint venture. Changes in net assets of the associate or joint venture 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 or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, 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 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 or joint control over a joint venture, 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 or joint venture and the retained interest is a financial asset within the scope of HKAS 39, 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 or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowance.

Revenue is recognised when the amount of revenue can be reliably measured: when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Deposits and instalments received from purchasers in respect of sales of goods prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Income from provision of outsourcing services and training services is recognised when the services are provided.

Income from provision of solutions on project-based development contracts is recognised based on the percentage of completion method in accordance with the accounting policy on project-based development contracts below.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the rights to receive payment have been established.

Project-based development contracts

Where the outcome of a contract for project-based development can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured by the proportion of contract costs incurred for work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Project-based development contracts – continued

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

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.

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.

Leasing

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 Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, 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

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 "prepaid lease payments" 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 if the leasehold land is under finance lease.

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 taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of items 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment – continued

Buildings under construction for future owner-occupied purpose

When buildings are in the course of construction for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction 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).

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets – continued

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

Prepaid lease payments mainly represent payments for obtaining land use rights. Payment for obtaining land use rights is charged to profit or loss or included as part of costs of buildings under construction 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 tangible 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 tangible 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.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) – continued

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 cash generating unit) is reduced to its recoverable amount. 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. 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. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("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 fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bill receivables, amounts due from related companies, pledged deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale financial assets or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payable, amounts due to related companies, dividend payable, consideration payable on acquisition of a subsidiary 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Convertible loan notes – continued

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.

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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

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 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, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity-settled share-based payment transactions

Share options 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 (share options 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 share options 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 share options 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 share options reserve will be transferred to accumulated profits.

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. 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 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated, and such estimation of the recoverable amount requires management to make significant estimates concerning the discount rates and growth rates based on management's view of future business prospects. The recoverable amount determination of the CGUs as at 31 December 2017 is based on the present value calculation which requires the Group to estimate the future cash flows expected to arise from the 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 2017, no impairment loss was recognised by the Group (2016: nil). As at 31 December 2017, the carrying amount of goodwill is RMB996,789,000 (2016: RMB1,008,479,000). Details of the recoverable amount calculation are disclosed in note 14.

Project-based development contracts

Revenue from project-based development contracts is recognised under the percentage of completion method which requires estimations made by management. Management estimates the contract costs, outcomes and expected costs to complete the contracts based on the budgets prepared for the contracts. Because of the nature of the activities, management reviews and revises the estimates of both contract outcomes and expected costs to complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to completion would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognised.

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aged analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise. As at 31 December 2017, the carrying amount of trade receivables is RMB1,479,933,000 (2016: RMB1,745,753,000) which is after allowance for doubtful debts of RMB208,090,000 (2016: RMB182,171,000) (see note 19).

Amortisation of intangible assets

The carrying value of the Group's intangible assets as at 31 December 2017 is approximately RMB179,450,000 (2016: RMB231,075,000). The Group amortises the intangible assets on a straight-line basis over their estimated useful lives of 3 to 10 years, commencing from the date of the intangible asset is available for use. The estimated useful lives and dates that the Group place the intangible assets into productive use reflects the directors of the Company's estimate of the periods that the future economic benefits can be derived from the usage of the Group's intangible assets. If the estimated useful life of intangible assets did not reflect its actual useful life, additional amortisation may be required.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services rendered during the year.

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

Information regarding the above segments is reported as below.

Segment revenues and results

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

	Segment revenue		Segment results	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Technical professional services business	**7,858,648**	5,481,921	**715,660**	533,611
Internet IT services business	**1,385,036**	1,301,446	**132,835**	115,656
	9,243,684	6,783,367	**848,495**	649,267

In 2017, the segment revenue is reported after eliminating inter-segment services revenue of RMB344,233,000 (2016: RMB113,110,000).

In 2017, the Group recognised a total of RMB4,196,228,000 (2016: RMB1,647,477,000) revenue from project-based development contracts.

Reconciliation of segment results to profit before taxation:

	2017	2016
	RMB'000	RMB'000
Segment results	**848,495**	649,267
Other income, gains and losses unallocated	**84**	4,727
Interest charge on convertible loan notes	**(40,156)**	(32,792)
Corporate expenses	**(25,702)**	(71,482)
Share option expenses	**(149,952)**	(45,285)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	**–**	20,152
Profit before taxation	**632,769**	524,587

5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Segment revenues and results – continued

Segment revenue reported above represents revenue generated from external customers. 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 corporate expenses, share option expenses, gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary, interest charge 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.

Segment assets and liabilities

Information reported to the CODM for the purposes of resources allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities 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, United States of America ("USA") and Japan.

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

	Revenues from external customers	
	2017	2016
	RMB'000	RMB'000
PRC	**8,766,645**	6,338,687
USA	**402,095**	408,062
Japan	**63,263**	36,618
Others	**11,681**	–
	9,243,684	6,783,367

Segment revenue by products and services:

	2017	2016
	RMB'000	RMB'000
Sale of software and hardware products	**436,172**	209,597
Provision of services		
Technical professional services	**7,615,969**	5,413,546
Internet IT services	**1,191,543**	1,160,224
	8,807,512	6,573,770
	9,243,684	6,783,367

5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Information about major customers

Revenues from customer of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Customer A[1]	4,872,538	3,634,503

[1] Revenue from TPG.

No other single customers contributed 10% or more to the Group's revenue for both 2017 and 2016.

Other segment information

2017	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	68,642	108,211	669	177,522
Finance costs	19,155	43,604	40,156	102,915
Allowance for doubtful debts	12,365	13,497	–	25,862
Interest income from pledged deposits and bank balances	(2,210)	(2,346)	(1,171)	(5,727)
Share of results of investments accounted for using the equity method	(21,654)	1,891	–	(19,763)
Loss on disposal of property, plant and equipment	130	358	131	619

2016	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	60,003	82,299	2,045	144,347
Finance costs	14,951	39,693	41,091	95,735
Allowance (reversal of allowance) for doubtful debts	26,631	(8,673)	–	17,958
Interest income from pledged deposits and bank balances	(2,653)	(2,098)	(30)	(4,781)
Share of results of investments accounted for using the equity method	(19,461)	1,969	–	(17,492)
Loss on disposal of property, plant and equipment	27	76	–	103

6. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on borrowings wholly repayable within five years	**58,913**	69,633
Imputed interest on consideration payable on acquisition of a subsidiary	**–**	918
Effective interest on convertible loan notes	**40,156**	32,792
Others	**3,846**	4,329
Total borrowing costs	**102,915**	107,672
Less: amounts capitalised in construction in progress (Note)	**–**	(11,937)
	102,915	95,735

Note: The amount represents the actual borrowing costs incurred on the specific borrowings for the purpose of constructing a property.

7. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	**89,085**	129,162
– over-provision in prior years	**(15,812)**	(12,250)
	73,273	116,912
Japan Corporate Income Tax	**657**	48
Others	**504**	485
	74,434	117,445
Deferred tax (note 27)	**(2,972)**	(2,691)
	71,462	114,754

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.

7. INCOME TAX EXPENSE – CONTINUED

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 30 October 2014, Chinasoft International Information Technology Limited ("Chinasoft Beijing") was designated as a High and New Technology Enterprise ("HNTE") Key software enterprise for a period up to the end of 2017. As a result, Chinasoft Beijing was subject to the income tax rate of 15% for both years.

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 Shanghai Huateng Software Systems Co., Ltd ("Shanghai Huateng") was entitled to a reduced income tax rate of 10% for the year ended 31 December 2016 and 2017.

According to Cai Shui 2016 No. 49 and Cai Shui 2012 No. 27, Chinasoft International Technology Services Limited ("CSITS") was entitled to a reduced income tax rate of 10% for the years ended 31 December 2016 and 2017.

Pursuant to a certificate issued by the Industry and Information Technology Department of Beijing City dated 20 October 2014, Chinasoft International Technology service (Beijing) Ltd., ("CSITS BJ") was designated as a software enterprise for a period up to 31 December 2018. As such, CSITS BJ was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2014. As a result, CSITS BJ was entitled a 50% tax reduction for the year ended 31 December 2016 and 2017.

Pursuant to a certificate issued by the Industry and Information Technology Department of Shanghai City dated 30 August 2014, Chinasoft International Technology service (Shanghai) Ltd., ("CSITS SH") was designated as a software enterprise for a period up to 31 December 2018. As such, CSITS SH was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2014. As a result, CSITS SH was entitled a 50% tax reduction for the year ended 31 December 2016 and 2017.

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

7. INCOME TAX EXPENSE – CONTINUED

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	**632,769**	524,587
Tax at PRC Enterprise Income Tax rate of 25% (2016: 25%)	**158,192**	131,147
Tax effect of share of results of interests in entities measured under equity method	**(4,941)**	(4,373)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(148,587)**	(99,281)
Tax effect of expenses not deductible for tax purpose	**75,906**	50,474
Tax effect of income not taxable for tax purpose	**–**	(5,038)
Over-provision in prior years	**(15,812)**	(12,250)
Tax effect of utilisation of tax losses previously not recognised	**(811)**	(235)
Tax effect of tax losses not recognised	**6,400**	2,865
Effect of different tax rates of subsidiaries	**(1,336)**	(963)
Withholding tax (Note)	**2,451**	52,408
Income tax expense for the year	**71,462**	114,754

Note: As detailed in the announcement of the Company dated 2 August 2016, the Group underwent an internal restructuring under which several PRC subsidiaries were transferred within the Group (the "Restructuring"). Under the Restructuring, the PRC subsidiaries distributed dividends amounting to RMB246,887,000 and the Group realised a capital gain of RMB277,191,000 from the tax perspective. Pursuant to the EIT Law, the dividends received from PRC subsidiaries and capital gain arising from the intra-group disposal of certain PRC subsidiaries by oversea subsidiaries were subject to a 10% withholding income tax and the related tax expense of RMB52,408,000 was recognised in 2016.

In 2017, a dividend distribution amounting to RMB28,848,000 was made by a PRC subsidiary prior to its deregistration. RMB24,510,000 of the dividend amount was declared in respect of profit earned from 1 January 2008 onwards and is subject to a 10% withholding income tax under the EIT Law. A related tax expense of RMB2,451,000 was recognised.

8. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 9)	8,388	11,169
Retirement benefits costs (excluding those for directors)	331,130	249,243
Share option expenses (excluding those for directors)	149,413	43,980
Other staff costs	6,597,908	4,855,958
Total staff costs	7,086,839	5,160,350
Less: Staff costs capitalised as development costs	(30,117)	(35,425)
	7,056,722	5,124,925
Research and development costs expensed	567,313	348,863
Less: Government grants	–	(3,594)
	567,313	345,269
Depreciation of property, plant and equipment	94,920	56,192
Amortisation of intangible assets	81,742	87,979
Amortisation of prepaid lease payments	860	893
	177,522	145,064
Less: Amortisation of prepaid lease payments capitalised in construction in progress	–	(717)
	177,522	144,347
Auditor's remuneration	6,300	5,680
Cost of inventories recognised as an expense	431,151	205,631
Minimum lease payments in respect of buildings	228,611	139,927
Net foreign exchange loss (gain) (included in other gains and losses)	3,446	(1,910)
Loss on disposal of property, plant and equipment	619	103
Interest income from pledged deposits and bank balances	(5,727)	(4,781)
Government grants	(86,674)	(29,055)
Value added tax refund	(1,210)	(1,609)

9. 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 2017 are as follows:

	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Total RMB'000
A) EXECUTIVE DIRECTORS			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,227	2,499	6,726
Retirement benefits	51	51	102
Sub-total	4,278	2,550	6,828

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	Samuel Thomas Goodner RMB'000 (Note a)	Gao Liangyu RMB'000 (Note b)	Total RMB'000
B) NON-EXECUTIVE DIRECTORS				
Fees	–	–	–	–
Other emoluments:				
Salaries and other benefits	260	293	–	553
Share-based payments	539	–	–	539
Sub-total	799	293	–	1,092

9. 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	Leung Wing Yin Patrick RMB'000	Lai Guanrong RMB'000	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	104	104	260	468
Other emoluments	–	–	–	–
Sub-total	104	104	260	468

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

	RMB'000
Total	8,388

Details of emoluments to the directors and the chief executive for the year ended 31 December 2016 are as follows:

	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000 (Note a)	Total RMB'000
A) EXECUTIVE DIRECTORS				
Fees	–	–	–	–
Other emoluments:				
Salaries and other benefits	4,609	3,338	1,048	8,995
Retirement benefits	47	47	47	141
Share-based payments	31	31	31	93
Sub-total	4,687	3,416	1,126	9,229

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.

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

Directors' and chief executive's emoluments – continued

	Zhang Yaqin RMB'000	Samuel Thomas Goodner RMB'000 (Note a)	Total RMB'000
B) NON-EXECUTIVE DIRECTORS			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	129	200	329
Share-based payments	1,212	–	1,212
Sub-total	1,341	200	1,541

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

	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Lai Guanrong RMB'000	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	103	103	193	399
Other emoluments	–	–	–	–
Sub-total	103	103	193	399

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

	RMB'000
Total	11,169

Note a: Samuel Thomas Goodner was appointed as a non-executive director of the Company and Wang Hui retired as an executive director of the Company on 18 May 2016.

Note b: Gao Liangyu was appointed as an independent non-executive director of the Company on 3 July 2017.

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, none (2016: two) were directors of the Company whose emoluments were included above. The emoluments of the five (2016: three) highest paid individuals were as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other benefits	11,513	9,714
Retirement benefits costs	223	129
Share option expenses	66,500	17,380
	78,236	27,223

The number of the highest paid employees including directors whose remuneration fell within the following bands is as follows:

	No. of employees 2017	 2016
Hong Kong Dollar ("HK$") 3,500,001 to HK$4,000,000	–	1
HK$5,000,001 to HK$5,500,000	–	1
HK$8,500,001 to HK$9,000,000	–	1
HK$10,500,001 to HK$11,000,000	–	1
HK$12,000,001 to HK$12,500,000	–	1
HK$15,500,001 to HK$16,000,000	1	–
HK$16,500,001 to HK$17,000,000	2	–
HK$20,000,001 to HK$20,500,000	1	–
HK$20,500,001 to HK$21,000,000	1	–
	5	5

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.

10. DIVIDEND

	2017 RMB'000	2016 RMB'000
Dividends for ordinary shares of the Company recognised as distribution during the year:		
2016 Final – HK1.2 cents (2016: nil) per share	25,019	–

Subsequent to the end of the reporting period, a final dividend in respect of year ended 31 December 2017 of HK1.8 cents (2016: HK1.2 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.

11. EARNINGS PER SHARE

	2017 RMB'000	2016 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	565,567	442,081
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	40,156	32,792
Earnings for the purpose of diluted earnings per share	605,723	474,873

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,396,988	2,173,087
Effect of dilutive potential ordinary shares:		
Share options	29,961	36,650
Convertible loan notes	193,746	190,144
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,620,695	2,399,881

The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the exercise of the Company's share options granted on 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 2016 did not assume the exercise of the Company's share options granted on 16 December 2015, 11 October 2016 and 17 November 2016 since the exercise prices of those share options were higher than the average market price of shares of the Company.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST						
At 1 January 2016	9,322	231,289	13,822	419,666	127,091	801,190
Exchange adjustments	–	1,728	14	–	46	1,788
Additions	–	110,271	294	191,206	36,280	338,051
Transfers	603,521	–	–	(603,521)	–	–
Disposals	–	(1,564)	(386)	–	–	(1,950)
At 31 December 2016	612,843	341,724	13,744	7,351	163,417	1,139,079
Exchange adjustments	–	(1,722)	(14)	8	(47)	(1,775)
Additions	–	58,509	2,431	33,923	34,289	129,152
Transfers	–	2,420	–	(31,117)	28,697	–
Disposals	–	(9,359)	(921)	–	(319)	(10,599)
At 31 December 2017	612,843	391,572	15,240	10,165	226,037	1,255,857
DEPRECIATION						
At 1 January 2016	–	163,896	10,751	–	88,950	263,597
Exchange adjustments	–	1,053	10	–	33	1,096
Provided for the year	2,493	35,837	659	–	17,203	56,192
Eliminated on disposals	–	(1,258)	(347)	–	–	(1,605)
At 31 December 2016	2,493	199,528	11,073	–	106,186	319,280
Exchange adjustments	–	(1,214)	(10)	–	(39)	(1,263)
Provided for the year	15,662	39,216	999	–	39,043	94,920
Eliminated on disposals	–	(8,495)	(785)	–	(319)	(9,599)
At 31 December 2017	18,155	229,035	11,277	–	144,871	403,338
CARRYING VALUE						
At 31 December 2017	594,688	162,537	3,963	10,165	81,166	852,519
At 31 December 2016	610,350	142,196	2,671	7,351	57,231	819,799

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

As at 31 December 2016, the Group pledged buildings with carrying amount of approximately RMB601,509,000 to secure general banking facilities granted to the Group. The pledge was released during 2017.

At 31 December 2017, the Group is in the process of obtaining the property certificate for the buildings with a carrying amount of RMB585,366,000 (2016: RMB601,509,000) which are located in the PRC.

13. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000	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	Technology RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST											
At 1 January 2016	325,776	17,367	27,153	19,704	12,494	243,238	13,764	1,007	23,344	11,572	695,419
Exchange adjustments	–	–	–	–	–	686	–	3	–	667	1,356
Additions	35,425	–	–	–	–	–	–	–	–	–	35,425
At 31 December 2016	361,201	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	732,200
Additions	30,117	–	–	–	–	–	–	–	–	–	30,117
At 31 December 2017	391,318	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	762,317
AMORTISATION/IMPAIRMENT											
At 1 January 2016	139,490	17,167	21,926	19,704	12,494	172,190	7,351	974	14,994	6,026	412,316
Exchange adjustments	–	–	–	–	–	351	–	1	–	478	830
Provided for the year	57,858	200	5,227	–	–	17,456	1,305	8	3,340	2,585	87,979
At 31 December 2016	197,348	17,367	27,153	19,704	12,494	189,997	8,656	983	18,334	9,089	501,125
Provided for the year	58,897	–	–	–	–	15,490	1,305	9	3,340	2,701	81,742
At 31 December 2017	256,245	17,367	27,153	19,704	12,494	205,487	9,961	992	21,674	11,790	582,867
CARRYING VALUES											
At 31 December 2017	135,073	–	–	–	–	38,437	3,803	18	1,670	449	179,450
At 31 December 2016	163,853	–	–	–	–	53,927	5,108	27	5,010	3,150	231,075

Development costs are internally generated. All other intangible assets were acquired from third parties.

Notes:

i. Contract-based customer-related intangibles and technical expertise 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.

13. 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

14. GOODWILL

	RMB'000
COST	
At 1 January 2016	1,191,688
Exchange adjustments	12,869
At 31 December 2016	1,204,557
Exchange adjustments	(11,690)
At 31 December 2017	1,192,867
IMPAIRMENT	
At 1 January 2016, 31 December 2016 and 31 December 2017	196,078
CARRYING VALUE	
At 31 December 2017	996,789
At 31 December 2016	1,008,479

14. 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 2017 and 2016 has been allocated to the following CGUs and groups of CGUs:

	2017 RMB'000	2016 RMB'000
Chinasoft Beijing	66,500	66,500
Shanghai Huateng	134,188	134,188
CSITS and related business(Note)	605,628	399,418
Catapult Systems, LLC ("Catapult")	189,643	201,333
MMIM Technologies Inc. ("MMIM") and related business (Note)	–	206,210
Computer Training Center of CS&S ("Training Center")	830	830
	996,789	1,008,479

Note: In 2017, the Group consolidated the operations of MMIM and CSITS to enhance its service capability and realise operational synergies. The Group then re-assessed the group of CGUs to which the goodwill has been allocated and combined the groups of CGUs of MMIM, CSITS and their related businesses for the purposes of monitoring the performance of goodwill.

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 discount rates shown below. 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	Discount rate		Growth rate	
	2017	2016	2017	2016
Chinasoft Beijing	12.5%	13%	3%	3%
Shanghai Huateng	12.5%	13%	3%	3%
CSITS and related business	13%	13%	3%	3%
Catapult	16%	16%	3%	3%
MMIM and related business	N/A	13%	N/A	3%
Training center	13%	13%	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 to exceed the aggregate recoverable amount of these CGUs/groups of CGUs.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2017 RMB'000	2016 RMB'000
Cost of unlisted investments	95,661	85,271
Share of post-acquisition profits, net of dividend received	37,557	18,919
	133,218	104,190

Included in the cost of unlisted investments is goodwill of RMB3,052,000 and RMB38,266,000 (2016: RMB3,052,000 and RMB38,266,000) arising from China National Tobacco Information Company Limited and Beijing Chinasoft international Education Technology Co., Ltd ("Beijing Chinasoft EDU"), respectively.

Particulars of the Group's significant investments accounted for using the equity method, both of which are associates of the Group, at 31 December 2017 and 2016 are as follows:

Name	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group		Nature of business
				2017	2016	
北京中煙信息技術有限公司 China National Tobacco Information Company Limited	Equity joint venture enterprise	PRC	PRC	20%	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry
北京中軟國際教育科技股份有限公司 Beijing Chinasoft EDU	Equity joint venture enterprise	PRC	PRC	49%	49%	Provision of IT training services

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – CONTINUED

Summarised financial information of material investments accounted for using the equity method

Summarised financial information in respect of the Group's material investments accounted for using the equity method is set out below. The summarised financial information below represents amount shown in the financial statements prepared in accordance with HKFRSs.

Beijing Chinasoft EDU

	2017	2016
	RMB'000	RMB'000
Current assets	**301,103**	148,484
Non-current assets	**69,793**	77,943
Current liabilities	**(226,335)**	(129,361)
Non-current liabilities	**(1,309)**	(1,964)

	2017	2016
	RMB'000	RMB'000
Revenue	**426,424**	312,498
Profit and total comprehensive income for the year	**37,150**	37,143

Reconciliation of the above summarised financial information to the carrying amount of the investments accounted for using the equity method recognised in the consolidated financial statements:

	2017	2016
	RMB'000	RMB'000
Net assets of Beijing Chinasoft EDU	**143,252**	95,102
Proportion of the Group's ownership interest in Beijing Chinasoft EDU	**49%**	49%
Goodwill	**38,266**	38,266
Carrying amount of the Group's interest in Beijing Chinasoft EDU	**108,459**	84,866

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – CONTINUED

Aggregate information of investments accounted for using the equity method that are not individually material

	2017 RMB'000	2016 RMB'000
The Group's share of profit (loss) and total comprehensive income (expense) for the year	1,559	(708)
Aggregate carrying amount of the Group's interests in these investments	24,759	19,324

16. AVAILABLE-FOR-SALE INVESTMENT

	2017 RMB'000	2016 RMB'000
Unlisted equity investment, at cost, non-current	65,342	61,965

On 23 January 2014, the Group entered into a partnership agreement with PointGuard Management I, L.P. ("PointGuard Management") and other two 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 2017, the investment made by the Group in PointGuard Ventures amounted to US$10,000,000 (2016: US$10,000,000) which represents a 13.29% (2016: 13.29%) of the share of interest. The investment is measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

17. PREPAID LEASE PAYMENTS

	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000
COST			
At 1 January 2016	43,023	1,702	44,725
Exchange adjustments	–	107	107
At 31 December 2016	43,023	1,809	44,832
Exchange adjustments	–	111	111
At 31 December 2017	43,023	1,920	44,943
AMORTISATION			
At 1 January 2016	2,580	1,669	4,249
Exchange adjustments	–	107	107
Provided for the year	860	33	893
At 31 December 2016	3,440	1,809	5,249
Exchange adjustments	–	111	111
Provided for the year	860	–	860
At 31 December 2017	4,300	1,920	6,220
CARRYING VALUE			
At 31 December 2017	38,723	–	38,723
At 31 December 2016	39,583	–	39,583

	2017			2016		
	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000
Analysed for reporting purposes as:						
Non-current assets	**37,863**	**–**	**37,863**	38,723	–	38,723
Current assets	**860**	**–**	**860**	860	–	860
	38,723	**–**	**38,723**	39,583	–	39,583

17. PREPAID LEASE PAYMENTS – CONTINUED

The Group's prepaid lease payments comprise payments associated with a land use right of RMB38,723,000 (2016: RMB39,583,000) in the PRC under medium-term lease.

The payment for the trademark usage right is amortised on a straight-line basis over 10 years.

The land use right is amortised on a straight-line basis over a lease term of 50 years.

As at 31 December 2016, the Group pledged land use right with a carrying amount of approximately RMB39,583,000 to secure general banking facilities granted to the Group. The pledge was released during 2017.

18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Computer hardware, equipment and software products	26,024	20,893

19. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	1,688,023	1,927,924
Less: Allowance for doubtful debts	(208,090)	(182,171)
	1,479,933	1,745,753
Advances to suppliers	124,606	72,727
Deposits, prepayments and other receivables, net of allowance for doubtful debts	385,701	304,220
	1,990,240	2,122,700
Analysed for reporting purposes as:		
Non-current assets	30,000	30,000
Current assets	1,960,240	2,092,700
	1,990,240	2,122,700

19. 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 for doubtful debts), presented based on the dates of invoices for sales of goods and services for projected-based development contracts, and dates of rendering of other services at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
Within 90 days	**1,129,652**	1,602,798
Between 91 – 180 days	**155,783**	94,115
Between 181 – 365 days	**187,322**	22,878
Between 1 – 2 years	**7,176**	25,099
Between 2 – 3 years	**–**	863
	1,479,933	1,745,753

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. 69% (2016: 83%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB314,041,000 (2016: RMB138,343,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the credit quality of these customers. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2017 RMB'000	2016 RMB'000
Within 90 days	**1,641**	88,463
Between 91 – 180 days	**121,480**	6,941
Between 181 – 365 days	**183,744**	17,070
Between 1 – 2 years	**7,176**	25,006
Between 2 – 3 years	**–**	863
Total	**314,041**	138,343

The Group has provided full impairment losses for all receivables aged over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

19. TRADE AND OTHER RECEIVABLES – CONTINUED

Movement in the allowance for doubtful debts

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**186,917**	185,502
Impairment losses recognised on receivables	**25,942**	44,677
Amounts recovered during the year	**(80)**	(26,719)
Amounts written-off as uncollectible	**(3,412)**	(16,560)
Exchange adjustments	**(32)**	17
Balance at end of the year	**209,335**	186,917

20. TRANSFER OF FINANCIAL ASSETS

The following are the Group's trade receivables as at 31 December 2017 and 2016 that were factored to a bank 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 a secured borrowing (see note 26). These receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2017 RMB'000	2016 RMB'000
Carrying amount of trade receivables	**–**	30,857
Carrying amount of associated liabilities	**–**	30,857
Net position	**–**	–

In addition to the above, as at 31 December 2017, trade receivables amounting to RMB553,889,000 (2016: RMB481,030,000) 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 RMB3,846,000 (2016: RMB4,329,000) which was charged to profit or loss.

21. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 RMB'000	2016 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**8,084,856**	3,832,206
Less: Progress billings	**(5,549,430)**	(2,524,271)
	2,535,426	1,307,935
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	**2,579,998**	1,430,206
Amounts due to contract customers for contract work	**(44,572)**	(122,271)
	2,535,426	1,307,935

There are no advances received from customers for contract work at the end of 2017 and 2016.

22. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2017 and 2016, 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.

The amounts due to related companies principally represent an advance from a non-controlling owner of a subsidiary of the Company, which is unsecured, interest-bearing at 4.35% (2016: 4.35%) per annum and with a term of one year.

23. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks as collaterals for short-term trade facilities granted to the Group and is therefore classified a 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 0.35% (2016: 0.90%) 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 0.32% (2016:0.38%) per annum as at 31 December 2017.

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 entity to which they relate.

23. PLEDGED DEPOSITS/BANK BALANCES – CONTINUED

	2017 RMB'000	2016 RMB'000
Renminbi	9,040	–
Hong Kong Dollar	6,787	4,402
United States Dollar	50,697	31,016
Japanese Yen	8,541	10,282
Others	54	–

24. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	772,647	552,475
Deposits received from customers	18,978	17,800
Other payables and accrued charges	792,670	633,568
	1,584,295	1,203,843

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

	2017 RMB'000	2016 RMB'000
Within 90 days	589,161	493,523
Between 91 – 180 days	27,205	20,484
Between 181 – 365 days	104,253	18,791
Between 1 – 2 years	34,268	10,770
Over 2 years	17,760	8,907
	772,647	552,475

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.

25. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2017 RMB'000	2016 RMB'000
Within 90 days	**20,473**	812

26. BORROWINGS

	2017 RMB'000	2016 RMB'000
Unsecured bank loans (Note (i))	**685,750**	925,291
Secured bank loans (Note (ii))	**–**	191,657
	685,750	1,116,948

	2017 RMB'000	2016 RMB'000
Carrying amount repayable:		
Within one year	**685,750**	922,452
More than one year but within five years	**–**	194,496
	685,750	1,116,948
Less: Amounts due within one year shown under current liabilities	**(685,750)**	(922,452)
Amounts shown under non-current liabilities	**–**	194,496

26. BORROWINGS – CONTINUED

	2017	2016
	RMB'000	RMB'000
Total borrowings		
At floating interest rates (Note (iii))	**40,000**	715,283
At fixed interest rates (Note (iv))	**645,750**	401,665
	685,750	1,116,948

	2017	2016
	RMB'000	RMB'000
Analysis of borrowings by currency		
Denominated in RMB	**685,750**	1,116,948

Notes:

(i) Guaranteed by the Company and certain subsidiaries of the Company.

(ii) Trade and bill receivables with a net carrying value of nil (2016: RMB30,857,000) are pledged to secure certain bank loans granted to the Group. The remaining bank loans amounting to nil (2016: RMB160,800,000) are secured by the land use right and construction in progress of 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 4.58% (2016: 5.37%) per annum.

(iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 4.35% to 4.79% (2016: 4.35% to 6.31%) per annum.

27. 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	Property plant and equipment RMB'000	Accrued charges RMB'000	Difference between carrying amount tax basis of interests in an associate RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	(9,688)	(1,603)	(1,253)	–	804	4,924	(7,677)	505	(13,988)
Credit (charge) to profit or loss	1,808	325	503	1,336	(804)	(514)	–	37	2,691
At 31 December 2016	(7,880)	(1,278)	(750)	1,336	–	4,410	(7,677)	542	(11,297)
Credit to profit or loss	1,964	325	584	–	–	–	–	99	2,972
Exchange adjustments	–	–	–	(78)	–	–	–	3	(75)
At 31 December 2017	(5,916)	(953)	(166)	1,258	–	4,410	(7,677)	644	(8,400)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**7,504**	7,646
Deferred tax liabilities	**(15,904)**	(18,943)
	(8,400)	(11,297)

At the end of the reporting period, the Group had unused tax losses of approximately RMB360,284,000 (2016: RMB370,470,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB3,400,000 (2016: RMB3,611,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB356,884,000 (2016: RMB366,859,000) tax losses due to the unpredictability of future profit streams. Tax losses for which no deferred tax asset is recognised amount to RMB356,884,000 (2016: RMB366,859,000) that will expire in various years before 2022 (2016: 2021).

27. DEFERRED TAXATION – CONTINUED

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 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 2017 amounting to RMB2,014,902,000 (2016: RMB1,164,297,000) 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.

28. 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.

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.

28. CONVERTIBLE LOAN NOTES – CONTINUED

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 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.

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 (see note 29).

28. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2010

In November 2010, the Company announced the completion of the issue of 4.25% convertible loan notes in the principal amount of RMB200,000,000 (the "2010 Convertible Loan Notes").

The 2010 Convertible Loan Notes entitled the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 29 November 2016 at a conversion price of (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue and capital distribution) of HK$2 per share, translated to RMB1.718 per share at a fixed exchange rate. Unless previously converted, the notes would be redeemed by the Company on 29 November 2016 at the principal amount outstanding together with accrued interest thereon up to an including 29 November 2016. Interest of 4.25% was paid semi-annually.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity headed convertible loan notes reserve. The effective interest rate of the liability component is 7.24% per annum. The 2010 Convertible Loan Notes have been fully converted as at 31 December 2016.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2017 **RMB'000**	2016 RMB'000
Carrying amount at the beginning of the year	**244,296**	89,622
Converted by the notes holders	**–**	(274,048)
Issued during the year	**680,660**	416,130
Interest charge (note 6)	**40,156**	32,792
Interest paid	**(11,467)**	(20,200)
Carrying amount at the end of the year	**953,645**	244,296

29. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2016, 31 December 2016 and 2017	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 2016	2,066,808,004	103,340,401	95,645
Exercise of share options (Note i)	31,880,000	1,594,000	1,365
Conversion of convertible loan notes (Note ii)	130,376,917	6,518,846	5,775
Issue of ordinary shares (Note iii)	85,109,515	4,255,475	3,602
At 31 December 2016	2,314,174,436	115,708,722	106,387
Exercise of share options (Note i)	88,100,000	4,405,000	3,896
At 31 December 2017	2,402,274,436	120,113,722	110,283

29. SHARE CAPITAL – CONTINUED

Notes:

(i) During the year ended 31 December 2017, share options to subscribe for 88,100,000 (2016: 31,880,000) ordinary shares of HK$0.05 each were exercised from HK$1.78 to HK$2.15 (2016: HK$0.97 to HK$2.15) per share (see note 37). These shares rank pari passu with other shares in issue in all respects.

(ii) During the year ended 31 December 2016, convertible loan notes issued in 2010 with the principal amount of RMB90,000,000 were converted into 52,382,227 ordinary shares of HK$0.05 each at a conversion price of RMB1.718 per share (see note 28). In addition, 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 77,994,690 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 28). These shares rank pari passu with other shares in issue in all respects.

(iii) In February 2016, the Company issued 85,109,515 ordinary shares of HK$0.05 each to Huawei Technology Company Limited ("Huawei") to acquire a 40% equity interests of CSITS, details of which are set out in note 33.

30. 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 reserve mainly represents 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.

30. SHARE PREMIUM AND RESERVES – CONTINUED

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.

31. 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 26, convertible loan notes disclosed in note 28, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising share capital, share premium, reserves and accumulated profits.

The directors of the Company review the capital structure semi-annually. 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.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	3,730,548	3,406,547
Available-for-sale investment	65,342	61,965
Financial liabilities		
Amortised cost	2,548,080	2,418,933

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, available-for-sale investment, trade and other payables, dividend payable, borrowings, bills payable, consideration payable on acquisition of a subsidiary 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, trade and other payables arising from purchases dominated in foreign currencies and borrowing, which expose the Group to foreign currency risk. Approximately 0.5% (2016: 0.9%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currency of the group entity 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	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Hong Kong Dollar	102,549	15,947	592	15,867
United States Dollar	96,512	45,346	–	–
Japanese Yen	18,053	23,985	1,348	3,304
Others	6,590	–	–	–

32. 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		United States Dollar Impact		Japanese Yen Impact	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit for the year	**(3,823)**	(3)	**(3,619)**	(1,700)	**(626)**	(776)

(a) This is mainly attributable to the exposure on Hong Kong Dollar trade receivables and bank balances 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 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.

32. 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 2017, except for an amount of RMB40,000,000 (2016: RMB715,283,000) 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 28 for details), borrowings with fixed interest rates (see note 26) and amounts due to related companies (see note 22). The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings (see note 26) and short-term bank deposits (see note 23) 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 2017 and 2016. 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 remaining floating rate borrowings (see note 26). A 50 basis points (2016: 50 basis points) increase or decrease is used for floating rate borrowings when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the floating rate borrowings, if interest rates had been 50 basis points (2016: 50 basis points) higher and all other variable were held constant, the Group's post-tax profit for the year ended 31 December 2017 would decrease/increase by RMB150,000 (2016: RMB2,682,000).

32. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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. The Group reviews the recoverable amount of each individual trade receivable at each end of the reporting period to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings in the PRC and HK.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 93.3% (2016: 94.4%) of the total trade receivables as at 31 December 2017. The Group has concentration of credit risk as 54.9% (2016: 60.5%) and 68.8% (2016: 69.1%) 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.

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.

As at 31 December 2017, the Group has available unutilised general borrowing facilities of approximately RMB909,250,000 (2016: RMB461,696,000).

The following table details the Group's remaining contractual maturity for its financial 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.

32. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables

	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 2017 RMB'000
2017							
Non derivative financial liabilities							
Trade and other payables		828,983	–	–	–	828,983	828,983
Bills payable		20,473	–	–	–	20,473	20,473
Amounts due to related companies	4.35	50,218	10,193	–	–	60,411	59,151
Dividend payable		78	–	–	–	78	78
Borrowings	4.58	666,782	25,030	–	–	691,812	685,750
Convertible loan notes	6.11	17,975	17,812	291,778	852,648	1,180,213	953,645
		1,584,509	53,035	291,778	852,648	2,781,970	2,548,080

	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 2016 RMB'000
2016							
Non derivative financial liabilities							
Trade and other payables		997,776	–	–	–	997,776	997,776
Bills payable		812	–	–	–	812	812
Amounts due to related companies	4.35	35,673	3,026	–	–	38,699	37,983
Dividend payable		83	–	–	–	83	83
Borrowings	5.37	524,786	428,322	55,119	165,540	1,173,767	1,116,948
Convertible loan notes	8.08	11,958	6,028	11,958	268,014	297,958	244,296
Consideration payable on acquisition of a subsidiary		21,331	–	–	–	21,331	21,035
		1,592,419	437,376	67,077	433,554	2,530,426	2,418,933

33. CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES

In October 2015, the Company and Huawei entered into a subscription and acquisition agreement pursuant to which (i) Huawei has conditionally agreed to subscribe, and the Company has conditionally agreed to issue 85,109,515 ordinary shares at HK$2.80 per share; and (ii) the Company had conditionally agreed to acquire, and Huawei has conditionally agreed to sell, 40% equity interest in CSITS. Details of the transactions were set out in a circular dated 23 November 2015 issued by the Company. The substance of the transactions is that the Company issued 85,109,515 ordinary shares to Huawei to acquire the 40% equity interests in CSITS held by Huawei. The conditions of these transactions such as the approval from board of directors and the shareholders of the Company and Huawei were satisfied in February 2016. The transactions were completed in February 2016 and CSITS became a wholly owned subsidiary of the Group afterward. The market value of the shares subscribed by Huawei as at the completion date amounts to HK$222,987,000 (equivalent to RMB188,758,000). The transactions were accounted for as an equity transaction with non-controlling investor of an existing subsidiary, and the differences between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the market value of the shares subscribed by Huawei is recognised directly in equity.

34. PLEDGE OF ASSETS

At the end of 2016 and 2017, the Group pledged certain bank deposits as collaterals for short-term trade facilities granted to the Group (see note 23). In addition, as at the end of 2016, the Group pledged certain trade and bill receivables, land use right and construction in progress to secure repayment of the bank loans (see note 26).

35. OPERATING LEASE COMMITMENTS

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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**97,466**	112,655
In the second to fifth year inclusive	**131,857**	207,538
	229,323	320,193

Operating lease payments represent rentals payable by the Group for certain premises for training centers, office properties and storeroom. Leases are negotiated for lease terms ranging from one year to six years (2016: one year to seven years) for the Group and rentals are normally fixed during the lease periods.

36. CAPITAL COMMITMENTS

	2017 **RMB'000**	2016 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	**845**	3,421
– investments in entities accounted for using equity method	**113,100**	89,100
	113,945	92,521

37. SHARE OPTION SCHEME

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.

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.

37. SHARE OPTION SCHEME – CONTINUED

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2017 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2017
Executive directors:									
Chen Yuhong	23.1.2014	HK$2.15	Nil	23.01.2014 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	4,000,000	–	(4,000,000)	–	–
					10,000,000	–	(10,000,000)	–	–
Tang Zhenming	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	(500,000)	–	–
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	(500,000)	–	–
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	(500,000)	–	–
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	(500,000)	–	–
	23.1.2014	HK$2.15	Nil	23.01.2014 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	4,000,000	–	(4,000,000)	–	–
					12,000,000	–	(12,000,000)	–	–
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
			16.12.2016 – 15.12.2017	16.12.2017 – 15.12.2018	1,200,000	–	–	–	1,200,000
					3,000,000	–	–	–	3,000,000

37. SHARE OPTION SCHEME – CONTINUED

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2017 are as follows: – continued

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2017
Employees:	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2017	1,085,000	–	(1,085,000)	–	–
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	3,220,000	–	(3,220,000)	–	–
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	2,950,000	–	(2,950,000)	–	–
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	3,350,000	–	(3,345,000)	(5,000)	–
	23.1.2014	HK$2.15	Nil	23.01.2014 – 22.01.2017	21,145,000	–	(21,145,000)	–	–
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	12,155,000	–	(12,155,000)	–	–
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	22,200,000	–	(22,200,000)	–	–
	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	–	–	25,500,000
			16.1.2017 – 16.1.2018	16.1.2018 – 15.1.2020	–	25,500,000	–	–	25,500,000
			16.1.2018 – 16.1.2019	16.1.2019 – 15.1.2020	–	34,000,000	–	–	34,000,000
					231,105,000	85,000,000	(66,100,000)	(5,000)	250,000,000
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					256,105,000	105,000,000	(88,100,000)	(5,000)	273,000,000
Exercisable at the end of the year									139,500,000
Weighted average exercise price					HK$3.08	HK$3.82	HK$2.10	HK$1.78	HK$3.68

37. SHARE OPTION SCHEME – CONTINUED

The movements of the share options granted to the directors and other employees of the Group during the year ended 31 December 2016 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2016
Executive directors:									
Chen Yuhong	23.1.2014	HK$2.15	Nil	23.01.2014 – 22.01.2017	3,000,000	–	–	–	3,000,000
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	3,000,000	–	–	–	3,000,000
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	4,000,000	–	–	–	4,000,000
					10,000,000	–	–	–	10,000,000
Tang Zhenming	30.3.2006	HK$0.97	Nil	30.3.2006–29.3.2016	–	–	–	–	–
			30.3.2006–29.3.2007	30.3.2007–29.3.2016	200,000	–	(200,000)	–	–
			30.3.2006–29.3.2008	30.3.2008–29.3.2016	200,000	–	(200,000)	–	–
			30.3.2006–29.3.2009	30.3.2009–29.3.2016	400,000	–	(400,000)	–	–
	10.4.2007	HK$1.78	Nil	10.4.2007–9.4.2017	500,000	–	–	–	500,000
			10.4.2007–9.4.2008	10.4.2008–9.4.2017	500,000	–	–	–	500,000
			10.4.2007–9.4.2009	10.4.2009–9.4.2017	500,000	–	–	–	500,000
			10.4.2007–9.4.2010	10.4.2010–9.4.2017	500,000	–	–	–	500,000
	23.1.2014	HK$2.15	Nil	23.01.2014–22.01.2017	3,000,000	–	–	–	3,000,000
			23.01.2014–22.01.2015	23.01.2015–22.01.2017	3,000,000	–	–	–	3,000,000
			23.01.2014–22.01.2016	23.01.2016–22.01.2017	4,000,000	–	–	–	4,000,000
					12,800,000	–	(800,000)	–	12,000,000
Wang Hui (Note)	23.1.2014	HK$2.15	Nil	23.01.2014–22.01.2017	3,000,000	–	–	–	3,000,000
			23.01.2014–22.01.2015	23.01.2015–22.01.2017	3,000,000	–	–	–	3,000,000
			23.01.2014–22.01.2016	23.01.2016–22.01.2017	4,000,000	–	–	–	4,000,000
					10,000,000	–	–	–	10,000,000
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
			16.12.2016–15.12.2017	16.12.2017–15.12.2018	1,200,000	–	–	–	1,200,000
					3,000,000	–	–	–	3,000,000

Note: Wang Hui retired as a director during 2016 and the outstanding share options held by him as at 31 December 2016 were included in those of 1 January 2017 held by other employees in the movements during 2017 above.

37. SHARE OPTION SCHEME – CONTINUED

The movements of the share options granted to the directors and other employees of the Group during the year ended 31 December 2016 are as follows: – continued

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2016
Employees:	30.3.2006	HK$0.97	Nil	30.3.2006–29.3.2016	50,000	–	–	(50,000)	–
			30.3.2006–29.3.2007	30.3.2007–29.3.2016	1,575,000	–	(775,000)	(800,000)	–
			30.3.2006–29.3.2008	30.3.2008–29.3.2016	2,125,000	–	(1,300,000)	(825,000)	–
			30.3.2006–29.3.2009	30.3.2009–29.3.2016	1,350,000	–	(525,000)	(825,000)	–
	10.4.2007	HK$1.78	Nil	10.4.2007–9.4.2017	1,085,000	–	–	–	1,085,000
			10.4.2007–9.4.2008	10.4.2008–9.4.2017	3,220,000	–	–	–	3,220,000
			10.4.2007–9.4.2009	10.4.2009–9.4.2017	3,200,000	–	(250,000)	–	2,950,000
			10.4.2007–9.4.2010	10.4.2010–9.4.2017	3,600,000	–	(250,000)	–	3,350,000
	23.1.2014	HK$2.15	Nil	23.01.2014–22.01.2017	24,000,000	–	(5,855,000)	–	18,145,000
			23.01.2014–22.01.2015	23.01.2015–22.01.2017	17,480,000	–	(8,325,000)	–	9,155,000
			23.01.2014–22.01.2016	23.01.2016–22.01.2017	32,000,000	–	(13,800,000)	–	18,200,000
	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
					124,685,000	130,000,000	(31,080,000)	(2,500,000)	221,105,000
Total					160,485,000	130,000,000	(31,880,000)	(2,500,000)	256,105,000
Exercisable at the end of the year									35,405,000
Weighted average exercise price					HK$2.34	HK$3.69	HK$2.02	HK$0.97	HK$3.08

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$3.77 (2016: HK$3.37).

37. SHARE OPTION SCHEME – CONTINUED

The estimated fair value of the share options granted on 11 October 2016 was HK$1.16 to HK$1.33 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$3.69
Exercise price	HK$3.69
Expected volatility	48.23%
Time to maturity	4 years
Risk-free rate	0.73%
Expected dividend yield	0.00%
Expected exercise period	1 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,461 days up to 2016.

The estimated fair value of the share options granted on 17 November 2016 was HK$0.97 to HK$1.25 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$3.65
Exercise price	HK$3.69
Expected volatility	52.54%
Time to maturity	3 years
Risk-free rate	0.95%
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 1,095 days up to 2016.

37. SHARE OPTION SCHEME – 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.

The Group recognised a total expense of RMB149,952,000 for the year ended 31 December 2017 (2016: RMB45,285,000) in relation to share options granted by the Company.

38. 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 RMB331,232,000 (2016: RMB249,384,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING

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 flow as cash flows from financing activities.

	Interest payable (included in trade and other payables)	Borrowings	Convertible loan notes	Amounts due to related companies	Dividend payable
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 26)	(note 28)		
As at 1 January 2017	6,237	1,116,948	244,296	37,983	83
New borrowings raised	–	1,989,822	–	–	–
Repayment of borrowings	–	(2,421,020)	–	–	–
Issue of convertible loan notes	–	–	680,660	–	–
Interest expenses	58,913	–	40,156	–	–
Advance from related companies	–	–	–	21,168	–
Interest paid	(63,583)	–	(11,467)	–	–
Dividend declared	–	–	–	–	25,019
Dividend paid	–	–	–	–	(25,019)
Foreign exchange translation	–	–	–	–	(5)
As at 31 December 2017	1,567	685,750	953,645	59,151	78

40. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related companies, other than those disclosed elsewhere in the consolidated financial statements:

	Notes	2017 RMB'000	For the period from 1/1/2016 to 25/2/2016 RMB'000
Provision of IT outsourcing services			
– Huawei Group	(a)	–	354,165
– Beijing Chinasoft EDU	(b)	992	–

	2017 RMB'000	2016 RMB'000
Provision of IT solution service		
– Beijing Chinasoft EDU	36	–

Notes:

(a) Prior to February 2016, Huawei was the non-controlling owner with significant influence over CSITS. In February 2016, CSI China acquired the entire equity interests in CSITS held by Huawei and Huawei ceased to be a related party of the Group thereafter.

(b) Beijing Chinasoft EDU is an associate of the Group.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	12,507	15,417
Retirement benefits costs	230	250
Share option expenses	11,513	6,145
	24,250	21,812

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Group's subsidiaries at 31 December 2017 and 2016 are set out as follows:

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		
			2017 %	2016 %	2017 %	2016 %	
Chinasoft International Holdings Limited	Samoa/Hong Kong ("HK")	US$1	100	100	–	–	Investment holding
Chinasoft International (Hong Kong) Limited	HK	HK$100	–	–	100	100	Investment holding and trading of standalone software products
Chinasoft International Treasury Management (Hong Kong) Limited	HK	HK$1	–	–	100	100	Inactive
中軟国际科技服務(香港)有限公司 Chinasoft Technologies Services Limited (Hong Kong)	HK	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

41. PARTICULARS OF 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		
			2017 %	2016 %	2017 %	2016 %	
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited (Note i)	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Training Center (Note ii)	PRC	RMB500,000	–	–	100	100	Provision of IT training services
中軟國際(昆明)信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited (Note i)	PRC	HK$8,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際(湖南)信息技術有限公司 Chinasoft International (Hunan) Information Technology Limited (Note i)	PRC	US$1,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟賽博資源軟件技術(天津)有限公司 CS&S Cyber Resources (Tianjin) Co., Ltd.	PRC	RMB5,000,000	–	–	76	76	Provision of IT outsourcing services
廈門中軟海晟信息技術有限公司 Xiamen Chinasoft Haisheng International Technology Limited ("CSIHS")	PRC	RMB80,000,000	–	–	51	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
北京中軟資源信息科技服務有限公司 Chinasoft Resources Beijing (Note i)	PRC	US$800,000	–	–	100	100	Provision of IT outsourcing services

41. PARTICULARS OF 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		
			2017 %	2016 %	2017 %	2016 %	
深圳市中軟資源技術服務有限公司 Shenzhen Chinasoft Resources Information Technology Services Limited	PRC	RMB5,000,000	–	–	100	100	Provision of IT outsourcing services
上海中軟資源技術服務有限公司 Shanghai Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	–	–	100	100	Provision of IT outsourcing services
日本創智株式會社 Japan Powerise Co., Ltd.	Japan	JPY22,500,000	–	–	100	100	Provision of IT outsourcing services
HGR	Cayman Islands	US$3,956,000	97.43	97.35	–	–	Investment holding
上海中軟華騰軟件系統有限公司 Shanghai Huateng (Note i)	PRC	US$8,000,000	–	–	100	100	Development and provision of IT system
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd. (Notes i & vi)	PRC	US$150,000	–	–	–	97.35	Provision of IT outsourcing services
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua Limited	Japan	JPY10,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際資源信息技術（無錫）有限公司 Chinasoft International Information Technology (Wuxi) Limited (Note i)	PRC	US$3,000,000	–	–	100	100	Provision of IT outsourcing services
深圳市金華業軟件系統有限公司 Shenzhen Jinhuaye Software Ltd.	PRC	RMB1,000,000	–	–	100	100	Provision of IT outsourcing services

41. PARTICULARS OF 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		
			2017 %	2016 %	2017 %	2016 %	
蘇州華騰軟件系統有限公司 Suzhou Huateng Software Systems Co., Ltd (Note vi)	PRC	RMB2,000,000	–	–	–	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際電子商務有限公司 Chinasoft International E-Co. Ltd.	PRC	RMB6,027,271/ RMB30,000,000	–	–	67	67	Provision of e-tickets agency services
中軟國際(中國)科技有限公司 Chinasoft International (China) Technology Limited ("CSI China") (Note i)	PRC	HK$20,000,000/ HK$100,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting
南京中軟資源科技服務有限公司 Nanjing Chinasoft Resources Information Technology Services Limited (Note i)	PRC	US$6,000,000	–	–	100	100	Provision of IT outsourcing services
漢普管理諮詢(中國)有限公司 Han Consulting (China) Ltd. ("Han Consulting")	PRC	RMB55,026,571	–	–	85	85	Provision of consulting services
掌中無限控股有限公司 MMIM	Cayman Islands	US$561	100	100	–	–	Investment holding
掌中無限信息服務有限公司 Mobile Instant Messaging and Information System, Ltd.	HK	HK$1	–	–	100	100	Provision of IT emerging services
北京掌迅互動信息技術有限公司 MMIM Interactive Co., Ltd. ("MMIM Interactive") (Note i)	PRC	US$13,150,000	–	–	100	100	Provision of IT emerging services

41. PARTICULARS OF 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		
			2017 %	2016 %	2017 %	2016 %	
北京掌中無限信息技術有限公司 MMIM Info. Technology Co., Ltd. ("MMIM Technology") (Note iv)	PRC	RMB10,000,000	–	–	100	100	Provision of IT emerging Services
中軟國際科技服務有限公司 CSITS (Note v)	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 CSITS SH	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
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(湖南)有限公司 Chinasoft International Technology Service (Hunan) Ltd.	PRC	RMB5,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際科技服務(大連)有限公司 CSITS DL	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際(西安)軟件技術有限公司 Chinasoft International Software Technology (Xian) Ltd. (Note i)	PRC	RMB200,000,000	–	–	100	100	Provision of IT outsourcing services
Cyber Resources Software Technology (Ireland) Limited	Ireland	EUR 100.00	–	–	100	100	Provision of IT outsourcing services
Catapult	USA	US$3,187,728	–	–	100	100	Provision of Microsoft product and technology consultancy services
衷道投資有限公司 Chinasoft International Investment Limited	PRC	US$30,000,000	–	–	100	100	Investment holding
CSI Innovation Inc.	USA	US$0.1	–	–	100	100	Investment holding

41. PARTICULARS OF 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		
			2017 %	2016 %	2017 %	2016 %	
Chinasoft Intl Global Limited	HK	HK$77.5	–	–	100	100	Investment holding
CSI Innovations (Hong Kong) Limited	HK	US$10	–	–	100	100	Investment holding
Chinasoft International Brilliant Limited (Cayman) ("Brilliant")	Cayman Islands	US$10	–	–	100	100	Investment holding
中軟國際科技服務(南京)有限公司	PRC	RMB20,000,000	–	–	100	100	Provision of IT outsourcing service
武漢中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of IT outsourcing service
CSI Interfusion Kft	Hungary	HUF3,000,000	–	–	100	100	Provision of solutions IT outsourcing IT consulting
CSI Interfusion sdn bhd	Malaysia	MYR1,000,100	–	–	100	100	Provision of solutions IT outsourcing IT consulting
中軟國際雲上軟體園(青島)有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
昆山中軟國際智造資訊技術有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
中軟國際雲上軟體園(南京)有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
中軟國際物聯網無錫有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting

41. PARTICULARS OF 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		
			2017 %	2016 %	2017 %	2016 %	
南京中軟國際資訊技術有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
徐州中軟國際智造資訊技術有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
山東中軟華騰軟體系統有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
中軟國際雲上軟體園(重慶)有限公司*	PRC	RMB10,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
CSI INTERFUSION INDIA PRIVATE LIMITED* CSI India	India	INR70,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
CSI INTERFUSION SINGAPORE* PRIVATE LIMITED CSI Singapore	Singapore	SGD50,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting
深圳中軟國際科技服務有限公司* CSITS SZ	PRC	RMB50,000,000	–	–	100	–	Provision of solutions IT outsourcing IT consulting

* Newly established during the year ended 31 December 2017.

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY – CONTINUED

Except for convertible loan notes issued by the Company, none of the subsidiaries had any debt securities outstanding at 31 December 2017 or at any time during the year.

Note i: These entities are registered as wholly-foreign owned enterprises under the PRC law.

Note ii: These entities are registered as institutional organisations under the PRC law.

Note iii: All the PRC established entities, except for those mentioned in Note i and Note ii above, are registered as limited liability companies.

Note iv: The registered owners of MMIM Technology, two individuals, hold the legal ownership of equity of MMIM Technology on behalf of the Group by a series of agreements enacted among the registered owners of MMIM Technology and Chinasoft Beijing. The agreements have in substance enabled the Group to have power over MMIM Technology, rights to variable returns from its involvement and has the ability to use its power to affect its returns, despite the absence of formal legal equity interest held by the Group therein.

Note v: During the year ended 31 December 2012, CSI China, a wholly owned subsidiary of the Company and Huawei entered into an agreement to establish CSITS in April 2012 as part of the Group's planned consolidation of its IT outsourcing business. Pursuant to the agreement, CSITS was owned by CSI China and Huawei as to 60% and 40%, respectively, in accordance with their respective contribution of the registered capital. CSITS was accounted for as a subsidiary of the Company. In February 2016, the Company acquired the 40% equity interests from Huawei and CSITS become a wholly owned subsidiary of the Group thereafter. Details are set out in note 33.

Note vi: The entities were deregistered during the year ended 31 December 2017.

Summarised financial information in respect of each of the Company's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY – CONTINUED

The table below shows details of non-wholly-owned subsidiaries of the Company that have 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		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
CSITS and its subsidiaries (Note)	PRC	–	–	N/A	(22,143)	–	–
CSIHS	PRC	49%	49%	(3,755)	(1,323)	42,612	46,367
Individually immaterial subsidiaries with non-controlling interests						21,553	22,058
						64,165	68,425

Note: On 25 February 2016, the Company acquired the 40% equity interests of CSITS from Huawei and CSITS become a wholly owned subsidiary of the Group thereafter. Details are set out in note 33.

CSITS and its subsidiaries	For the year ended 31/12/2017 RMB'000	For the period from 1/1/2016 to 25/2/2016 RMB'000
Revenue	N/A	452,988
Expenses	N/A	(508,345)
Loss and total comprehensive expenses for the period	N/A	(55,357)
Net cash outflow from operating activities	N/A	(318,266)
Net cash outflow from investing activities	N/A	(19,024)
Net cash inflow from financing activities	N/A	52,547
Net cash outflow	N/A	(284,743)

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY – CONTINUED

CSIHS	2017 RMB'000	2016 RMB'000
Current assets	160,728	158,273
Non-current assets	12,824	14,389
Current liabilities	(86,884)	(78,036)
Equity attributable to owners of the Company	44,058	48,259
Equity attributed to non-controlling interests	42,612	46,367
Revenue	129,714	137,539
Expenses	(137,376)	(140,239)
Loss and total comprehensive expense for the year	(7,662)	(2,700)
Net cash outflow from operating activities	(21,349)	(1,166)
Net cash outflow from investing activities	(1,859)	(747)
Net cash inflow from financing activities	17,125	2,376
Net cash (outflow) inflow	(6,083)	463

42. 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:

	2017 RMB'000	2016 RMB'000
Non-current assets		
Interests in subsidiaries	2,152,671	2,152,671
Current assets		
Other receivables	1,613	1,733
Amounts due from subsidiaries	915,679	89,036
Bank balances and cash	6,813	4,166
	924,105	94,935
Current liabilities		
Other payables	4,708	4,940
Amounts due to related companies	118	10,000
Dividend payable	78	83
	4,904	15,023
Net current assets	919,201	79,912
Total assets less current liabilities	3,071,872	2,232,583
Non-current liabilities		
Convertible loan notes	953,645	244,296
	2,118,227	1,988,287
Capital and reserves		
Share capital	110,283	106,387
Reserves (Note)	2,007,944	1,881,900
Total equity	2,118,227	1,988,287

42. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY – CONTINUED

Note: Movement in reserves

	Share premium	Share option reserve	Convertible loan notes reserve	Accumulated loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	2,106,029	50,605	13,676	(750,698)	1,419,612
Loss and total comprehensive expenses for the year	–	–	–	(132,767)	(132,767)
Issue of ordinary share upon exercise of share options	60,588	(6,766)	–	–	53,822
Recognition of share option expenses	–	45,285	–	–	45,285
Cancellation of share options	–	(784)	–	784	–
Issue of ordinary shares	185,156	–	–	–	185,156
Issue of convertible loan notes	–	–	42,519	–	42,519
Conversion of convertible loan notes	300,924	–	(32,651)	–	268,273
At 31 December 2016	2,652,697	88,340	23,544	(882,681)	1,881,900
Loss and total comprehensive expenses for the year	–	–	–	(259,011)	(259,011)
Issue of ordinary share upon exercise of share options	181,651	(22,159)	–	–	159,492
Recognition of share option expenses	–	149,952	–	–	149,952
Cancellation of share options	–	(3)	–	3	–
Issue of convertible loan notes	–	–	100,630	–	100,630
Dividends paid to shareholders	(25,019)	–	–	–	(25,019)
At 31 December 2017	2,809,329	216,130	124,174	(1,141,689)	2,007,944

Financial Summary

RESULTS

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	3,205,985	4,429,202	5,129,111	6,783,367	**9,243,684**
Profit (loss) before taxation	204,918	297,239	419,994	524,587	**632,769**
Income tax expense	(4,890)	(42,183)	(87,010)	(114,754)	**(71,462)**
Profit (loss) for the year	200,028	255,056	332,984	409,833	**561,307**
Attributable to:					
Owners of the Company	148,301	200,038	280,056	442,081	**565,567**
Non-controlling interests	51,727	55,018	52,928	(32,248)	**(4,260)**
	200,028	255,056	332,984	409,833	**561,307**
	HKD (cents)	HKD (cents)	HKD (cents)	HKD (cents)	**HKD (cents)**
Dividend	–	–	–	1.2	**1.8**

ASSETS AND LIABILITIES

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	4,672,957	5,344,466	6,348,453	7,229,303	**8,751,533**
Total liabilities	(2,231,756)	(2,643,435)	(2,862,183)	(2,896,664)	**3,521,567**
	2,441,201	2,701,031	3,486,270	4,332,639	**5,229,966**