ANNUAL REPORT 2013

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

Mr. Chen Yuhong *(Chairman & Chief Executive Officer)*
Dr. Tang Zhenming
Mr. Wang Hui
Mr. Jiang Xiaohai *(Retired on 20 May 2013)*

Non-executive Directors

Mr. Zhao John Huan
Dr. Zhang Yaqin
Mr. Lin Sheng
Ms. Shen Lipu *(Retired on 20 May 2013)*

Independent non-executive Directors

Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Song Jun
Mr. Xu Zeshan *(Retired on 20 May 2013)*

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Leong Leung Chai Florence

INTERNATIONAL 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
Haidian sub- branch
No. 58 Beisihuan West Road
Haidian District
Beijing, PRC

The Bank of East Asia Limited
22nd Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

North Wing 12/F, Raycon 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

Chairman's Letter

Dear investors,

Year 2013 was the first year of the Group's new three-year plan. The Professional Services Group (PSG) and the Outsourcing Services Group (OSG) recorded significant development, while the Emerging Services Group (ESG) has set sail and commenced on its journey. Within the reporting period, the Company's service revenue was RMB3,070 million, achieving a growth rate of 20% year-on-year. Among which the revenue for Professional Service Group (PSG) reached RMB1,560 million, with an increase of 26% as compared to the same period of the previous year. The revenue for Outsourcing Service Group (OSG) was RMB1,420 million, with an increase of 16% as compared to the same period of the previous year. The total number of employees of the Company reached 23,607.

The year 2013 was also the first year for "Internet Transformation of Traditional Industries." Social, mobile, analytics, and cloud ("SMAC") technologies are riding at the forefront of this transformation, and the Company is in position to capitalize on this opportunity because of the foundation it built in mobile internet and cloud technology in the past three years. Cloud computing and cloud services are the future of the industry, and since entering into a strategic partnership with Ali-Cloud, the Company has seen fruitful results in cloud integration service, cloud middleware platform, government cloud, and cloud applications. During the reporting period, the Company worked closely with Ali-Cloud in Zhejiang Province e-government pilot project, CITIC 21CN drug regulatory cloud platforms and other projects. This established ChinaSoft's competitive advantage in areas of cloud integration service as well as in government cloud. Mobile Internet is IT consumerization's core strength, and we have had a tremendous growth in this regard after acquiring MMIM to develop mobile Internet services. In the reporting period, the Company won the bid for China Mobile's Fetion mobile client development and support project, as well as mobile unified payment, wireless cities and other strategic projects. This allowed the Company to become a core technology service provider to China Mobile. During the Company's fifth strategy day in December of 2013, the Emerging Services Group with SMAC capabilities was established, sending the Company on a new development journey for the next 10 years.

Year 2014 will be a year we witness the making of history. This is the year that we have been preparing for, the year that we transform into a next generation IT Service Company. To do so, we will focus on the following:

1) Establish JointForce: A Cloud-Based Crowd Sourcing Service Platform. Management believes that in the future of IT services industry, there will no longer be multinational companies, but rather multinational platforms, vibrant with small to mid-sized firms and individual entrepreneurs. With this transformation upon us, we explore the true colors of IT services. In the past decade, the Group's annual service revenues increased by 53 times, while our head count also increased by almost 100 times. Therefore there is no denying that our utilization rate and profit margins have fallen. In order to reach our annual revenue target of RMB 10.0 billion (more than double our current year figure), the Group must change its growth strategies. We believe we need to create a new platform as a means to achieve our new goal and rapidly increase our revenue and profitability. We will start by constructing a municipal cloud network using Ali-Cloud and partnering with other cloud leaders as well as local software delivery capacities. We plan to harness the power of the crowd sourcing platform to minimize per-location cost while benefiting our local partners, and in the process create a crowd-sourcing delivery eco-system. This will "liberate" the IT service industry, and achieve the ideal that will allow all engineers to be prominent and all customers to be VIP's. "Create, share, and grow" are the essences of the Internet. That is the code we've lived by in the last decade. We've faced difficulties and challenges. But we persevered, and now the seed that we have planted will indubitably blossom.

2) Build Advanced Analytics and High Quality Services as Professional Services Group's Competitive Advantages. The management believes that SMAC technology is changing the traditional industries by: first starting with social, then through observations of mobile, next relying on cloud as its infrastructure backbone, and finally completes the system through analytics. As a major domestic IT solutions provider, the Company's Professional Services Group has strong presence in government, finance, telecommunications, manufacturing and many other verticals. It has accumulated a wealth of customer and data resources, and built a strong foundation in the big data services areas. In order to build competitive advantage, the Professional Services Group will restructure and focus on data architects and scientists. Meanwhile, in respect to the increasing adoption of SaaS in our industry, we will be customer eccentric and test out different major markets that need data services. We will conduct focused testing in our main verticals, achieving success end-points in a number of pilot projects.

3) Expand the Outsourcing Business Group Oversea by being Huawei's Partner. It has been almost two years since ChinaSoft and Huawei's joint venture. In 2013, we received the top grade as suppliers for Huawei's main product line and main research institute. Quietly, our overall service quality and capabilities have improved profoundly. The management believes that if we learn from the best, we can become the best. Fruitful results will come to us! In the reporting period, we participated in Huawei's cloud payment project, and became part of the supply chain layout. We hope to eventually create its own system throughout Asia, Europe, and South America. As the partnership strengthens, our respect for Huawei deepens. Huawei led the Chinese people into the world market and taught its employees discipline. Huawei CEO Mr. Ren has said, "anywhere there are people, there will be traces of Huawei." I sincerely hope that in the near future, wherever there are traces of Huawei, there will be traces of ChinaSoft, emulating and growing together. In addition, we acquired Catapult Systems, an American cloud integration service company. The professionalism and outstanding management of Catapult will surely stir up our passion for expansion in the global markets. Leveraging what we've learned from Huawei in respect to professional service capabilities, combined with Catapult's advanced management expertise and experience in matured markets, we will push its service to a broad and high potential market.

"Divide and Conquer": Come a Full Circle with Each Service Group on the Crowd Sourcing Platform.

Management believes that strategy implementation requires two major factors. The first is to receive the support and approval from the capital market and our investors. The second is to have employees who love what they are doing so much that they forget they are even working, along with a strong sense of pride for their work. Through our platform, we have the opportunity to unite end-to-end in the productive value chain from engineers, corporate employees, sales, and capital market. We have the opportunity to turn our 20,000+ software engineers to become keys in this transformation, and provide more efficient, effective, and high value services to our customers. We will profit and grow, along the way again savor the excitement of growth and take in its full glory. We will work relentlessly to make sure that the shareholders will have a greater return during our transformation.

We are feeling the powerful pulse of this historical transformation as well as grasping its strong rhythm. Thank you for your unfailing support in the past, and I hope we will count on your continued support tomorrow!

Yours sincerely,

Chen Yuhong
Chairman of the Board

Business Overview

I. CORPORATE STRATEGY

Shifting Landscape of IT Services

It is no secret that technology advancement is currently enabling a generation of new technology-based enterprises to disrupt and even dominate traditional industries (Amazon, Alibaba, Tencent and etc). The wide spread proliferation of next generation technologies in Social, Mobile, Analytics and Cloud (SMAC) have become so prevalent so quickly that new business models have sprung up in almost every industry vertical and are experiencing rapid growth. For a leading IT service provider such as ChinaSoft International, the challenge is clearly in how quickly we can transform ourselves to align with the changing market place. To repeat an overused term, the Group must "transform" to keep up with the changing needs of its customers, all the while making adjustments to its own business model to remain relevant to the market place, and maximize shareholder profits.

From a strategic point of view, management feels that the IT service industry is currently in a very dynamic environment with difficult challenges as well as outstanding opportunities. On the one hand, new cloud based technology enables software services to be delivered quickly and cheaply over the internet (via the Software as a Service, or SaaS model), drastically reducing the overall cost of software development. This is currently posing significant threat to the traditional consulting model of software development. On the other hand, the advent of Mobile and Social, combined with Cloud creates a new set of demands for new software that is needed to first manage the vast data traffic, and then analyze them through Big-Data analytical tools. Facing this exciting but also turbulent time, management summarized the Group's strategy in the following few bullet points:

Embrace the Cloud Platform

"We have seen the future, and it is on a cloud!" There is now no question that the fundamental foundation for computing and IT services going forward will be cloud technology. The Group began to work with cloud technology when it signed a strategic cooperation agreement with Ali-Cloud back in 2012 to bring R1 middleware onto Ali-Cloud's PaaS layer (Platform-as-a-Service). Thereafter, Chinasoft has continued to focus on cloud business and cooperated with Ali-Cloud as a spearhead. On the international front, through the newly acquired Catapult Systems, the Group provides high end cloud services in Microsoft's Azure public cloud technology stack. And in early 2014 the Group made a minority investment in a US company that specializes in Commerce as a Service (CaaS), operating exclusively in the cloud. Going forward management sees tremendous opportunities in every industry vertical, include the government sector (smart government cloud, e-audit) in China where the Group has extensive experience.

Advanced Analytics. Man + Machine

The vastness of the amount of new digital data generated is unprecedented, and it clearly tells us that the big data era is coming.

All enterprises, including those in the government sector, are recognizing the importance of data as an asset. Meanwhile, advanced data analysis capability is becoming a core competitive differentiator. The four V's (volume, variety, velocity, and veracity) of today's big-data characteristic make yesterday's analytical tools obsolete. To transform to this new world, the Group must develop new capabilities and tools. The Group has accumulated years of experiences working with big data projects and has many advantages in this front:

- Worked with many customers and data resources in industries including government, finance, telecommunication, manufactory, and public services;

- Has experience in PB (PetaByte) level data storage and processing capabilities: China Meteorological Administration, PB level structure and unstructured data;

- Worked on large concurrent high-performance computing capability: China UnionPay, 12 million transactions at day peak.

Despite all the marketing rhetoric, most domestic IT service providers lack capabilities to deliver advanced analytics (such as vertical specific data models) at the current time. There is still a wide gap between foreign leading analytic providers and local service providers. The Group sees a great opportunity to fill this gap by collaborating with some of the world's best data analysis and decision science service providers in 2014. The Group will build collaboration laboratories to focus on driving innovative and emerging technologies in the Chinese domestic market for advanced analytics by means of partnership. Through collaborations and the winning of key customers, the Group will develop data analysis capabilities, including building up methodology of advanced data analysis, creating products and tools and supplying with services, as well as cultivating data scientists with advanced data analysis capabilities. By combining the Group's local market and customer knowhow with global leading technical solutions of advanced analytics, brought on by the partnership, the Group expects to create a set of trusted and valuable data analysis solutions and services for many verticals, all designed and created for the Chinese market.

JF-Change our own business model – and change the world

It's no doubt that Internet is now ubiquitous, and is reshaping almost every traditional industry, including the IT industry. Internet has completely changed our understanding of IT services, and it has allowed us to recognize what IT service really is. As we all know, like other companies in this space, the Group has faced rising costs and falling profit margins. In addition, the phenomenon of labor force turnover is ongoing. Pursuing higher salary and better sense of recognition, the software engineers don't hesitate to switch to another position frequently. Meanwhile, the Group's customers are demanding higher level of services. They expect high quality services at lower costs. This is exactly the pain points for all players in the IT services space currently. However, thanks to SMAC, the Group believes that we can transform our own business model as well as the work model for the entire IT services industry. Starting with the fact that the Group has accumulated over 10 years of IT industry operation and human resources management experiences, Group management began to explore alternative models. After much exploration, management believes it has found the solution: a cloud based crowd-sourcing platform we call JointForce (or JF). JointForce is a social resource integration platform via crowd-sourcing. JF also organizes IT service community ecosystem (IT employees, IT enterprises and customers included). On the JF platform, all the delivery is fulfilled via the Cloud. The objective of JF is to be an efficiency platform for IT service enterprises, new work platform for employees in IT service industry and new service providing platform for customers. Through JointForce, the Group expects to achieve non-linear revenue growth and substantially improve staff efficiency, leading to increase in profit. In 2014, the Group will release JointForce. Via operation and promotion of JF, management envisions a future that each customer is a VIP, each engineer is an expert in segments, and that IT enterprises' revenue and service quality will rise to a much higher level. In addition, the Group will cooperate with IT service enterprises, IT staffs and customers to outline a flourishing IT industry transformation.

Business Overview

Strategic Partners – Riding on the shoulders of Giants

The Group is a strong believer of the "value add" strategic relationships with industry leading customers and investors. Our rapid growth in the last decade was based largely on this principle, and management intends to continue on this path going forward.

Ali-Cloud

In 2012, Chinasoft International reached a strategic agreement with Ali-Cloud, for the co-development of a PaaS platform as a part of the Ali-Cloud system. In 2013, under the organization of Ali-Cloud, Yunqi Cloud Alliance was set up. It was the first alliance in the Chinese cloud computing industry, and ChinaSoft became the chief promoter of the organization. This is because of the Group's past relationship with Ali-Cloud as the Group worked with Ali on Zhejiang e-Government Cloud pilot project, CITIC21CN Medicine Supervision Cloud Platform and the Greentown Smart City Living project. The Group is now working in close cooperation with Ali-Cloud in a much wider service range. In the future, the Group will make its best effort in the cooperation with Ali-Cloud, including moving ahead on the success of government service cloud pilot project, and further gaining the experience of success in traditional industry transformation and promoting it.

China Mobile

In 2010, the strategic cooperation agreement with Beijing and Shanghai Branches of China Mobile was reached, and MMIM Technologies was acquired by the Group to exploit Mobile Internet Service. Three years has passed, the cooperation has attained a great breakthrough. The Group won the bidding for strategic projects such as Fetion and Wireless City, and ChinaSoft has been the core supplier of Internet based technology for China Mobile. In the future, the Group will follow up with China Mobile's Internet strategy closely and grow together with customers in the process, helping them with their transformation.

Microsoft

In 2005, Microsoft became a holder of preference shares of Chinasoft International. In 2011, Microsoft converted the preference shares held into ordinary shares and Chinasoft International strengthened its strategic cooperation with Chinasoft. The Group became a Global Premier Vender for Microsoft, the first one in China, and also served as the most valuable supplier globally for Microsoft. In 2013, the Group acquired Catapult, the preferred supplier for Microsoft's integration service. Through this acquisition, the Group's Microsoft Cloud related capabilities increased tremendously. In the Future, taking advantage of Catapult's Market and Management, ChinaSoft will leverage its experienced IT solution capabilities and its high quality customer services to expand to the developed AE market.

Huawei

In April of 2012, the joint venture of Chinasoft International and Huawei was established, with the goal to create the best outsourcing business group. After two-years of operation, the quality management and delivery ability have grown significantly. The Group is regarded highly by Huawei. In 2013, the Group carried out the project of Huawei's Cloud-based Payment System as its first strategic move to expand globally. In the future, the Group will move forward firmly with Huawei, shoulder by shoulder, and continue to enhance our professional service capability. Meanwhile, as a part of Huawei's global supply chain, ChinaSoft wishes to push its IT solutions globally.

Hony Capital

In 2011, Hony Capital became the Group's largest shareholder and formed a strategic alliance. In the past three years, with the recommendations and help from Hony Capital, the Group continued to seek opportunities to work with Legend Holdings and companies in Hony Capital's portfolio. Meanwhile, the Group has completed several projects with Suning (also in Hony Capital's portfolio) and some other customers. Naturally, the Group sees the effect and future of the alliance.

II. BUSINESS DEVELOPMENT HISTORY

The Group was incorporated in February 2000, headquartered in Beijing. The Group's main business was to provide government customers with system integration and customized software development services. In the same year, the Group introduced its proprietary application support platform ResourceOne V1.0.

In 2002, Chinasoft International was awarded as the sole service provider of the e-government construction projects in China's top five Economic and Technological Development Zones (Tianjin, Dalian, Harbin, Beijing and Guangzhou), and subsequently was contracted for the construction of office automation projects for the National Audit Office, the Ministry of Transport, the Ministry of Agriculture, the Ministry of Civil Affairs, the Ministry of Construction, and many more.

In 2003, the Group listed on the Growth Enterprise Market (GEM) board of Hong Kong Stock Exchange. Supported by the capital platform, the Group adopted a new development model of organic growth together with growth via mergers and acquisitions, leading to rapid growth in both of performance and scale. The industries that the company served expanded from government to state owned largescale manufacturing, and the Group gradually underwent a transformation from a traditional distributor and integrator of hardware and software to a solutions provider. At the same time, it adhered to independent research and development, upgraded ResourceOne to V3.0 based on the SOA architecture, and successfully promoted it to multiple vertical industries.

In 2004, the Group entered the field of IT training by the acquisition of Computer Training Centre of CS & S.

In 2005, the Group kept pace with the changing times by entering the IT outsourcing area by successfully merging and integrating with Chinasoft Resources Information Technology Services Limited, established strategic partnerships with top international enterprises such as Microsoft, and set up operation in the United States.

In 2006, the Group extended its ITO business to the Japanese market through the acquisition of the outsourcing team of Powerise International Software Company. With the thriving ITO business, the Group has taken a big step from China's domestic market toward a broader overseas market.

In 2007, the Group completed the acquisition and integration of Hinge Global Resources, thus extended its service industries to financial, transportation and other important areas and adding specialised BPO services. Leveraging its comprehensively developed technique advantages and industry position, the Group became a top SOA partner of International Business Machines Corporation (IBM), and together to build up the Group's SOA Innovation Center. The Group's Excellence Training Centers (ETCs) set up practical training bases, in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Tianjin, and Nanjing, the each with an area of 1000-5000 m2, with the annual training capacity reaching over 10,000 people.

Business Overview

In 2008, The Group successfully upgraded its listing from the GEM Board to the Main Board of the Hong Kong Stock Exchange (Ticket: HKSE.354. With fully developed technical advantages and a leading position in the industry, the Group became the first-ranked SOA partner of International Business Machines Corporation (IBM), and jointly built the Chinasoft International SOA Innovation Centre.

In 2010, Han Consulting joined us, which significantly strengthened the Group's front-end consulting capabilities. As of now the Group has completed its end-to-end layout under which IT consulting, technology services, outsourcing services, and training have been unified. In the same year, the Group entered the telecom and mobile internet industries through acquisition of MMIM Technologies, Inc. This emerging market will become a key engine for the strategic transformation of its business.

In 2011, the Group introduced Hony Capital as a strategic investor and formed a strategic partnership. the Group will carry out integration in the information service business as an enterprise that is used as a platform. This made the Group being a world-class leading enterprise with a rapid growth in the information technology services area. In the same year, the Ten-Thousand-Staff Base of the Group is located at Software New City in Xi'an High-Tech Zone. The Group will continue to build a platform for the enterprise and strive for being the industrial integrator in the information technology and software services area in China in the future.

In 2012, the joint venture with Huawei was officially launched, and stepped into a substantive operation stage with a stable growth trend in performance. Since the market share of Huawei business is higher than other suppliers, initial signs of synergies in the joint venture have emerged. In the same year, the Group also entered the electricity industry and obtained a breakthrough achievement. Industry service capability has fully upgraded through the acquisition of a vendor of State Grid electric power information service company.

In 2013, Catapult, a U.S. service provider specialized in consultancy services on Microsoft products and technologies, was acquired to enhance the Group's cloud integration and high-end servicing capabilities in new technology IT services such as Cloud computing, mobile and social media. This has laid a solid foundation for the development of global market through the strengthened strategic cooperation with Microsoft. The Group had closer cooperation with Ali-Cloud and became a chief promoter of Yunqi Cloud Alliance, the country's first alliance in cloud computing organized by Ali-cloud. The Group worked closely with Ali-Cloud in the promotion of the development of cloud-related industry, and together signed an agreement with Zhejiang Province government administration to build a demonstration pilot project of smart cloud, achieving the implementation of home-grown electronic administration cloud solution. As at the end of 2013, the number of staff employed by the Group was over 23,000, with business expanded into regions in Central America, South America, U.K., India, Africa, South-east Asia and the Middle East. Branches or offices have been set up globally in over 20 cities in mainland China, Hong Kong, U.S., Japan and Europe, all contributing to the Group's global delivery capability.

III. COMPETITIVE LANDSCAPE & COMPETITIVE STRENGTH

Core Strength

1. Highly Competitive Industry Experience

The Group has accumulated many years of experiences in consulting, technology services and outsourcing services, and has in-depth expertise in serving the main industries such as government and manufacturing, finance, telecommunications, hi-tech, which heavily rely on IT services. The Group has formed more than 50 standardised industry solutions, with over 200 software copyrights and a variety of patents, all of which helped to establish its dominant position in the industries and areas.

2. End-to-end Service Model

The foundation for the Company's continued and steady business growth was laid with the end-to-end business model that has integrated consulting, technology services, outsourcing and training. The Group offers customers consulting services in combination with its industry experience, seeks for breakthroughs driven by consulting, helps customers effectively solve their problems through technology services, and provides outsourcing services according to customers' needs. Cross-sales of different services to the same customer improved customer loyalty.

3. Good Global Delivery Capability

The Group has good global delivery capability, with a quick response mechanism in place for business deliveries in different parts of the world such as China, the United States and Japan. By fully leveraging on the industry knowledge and experiences gained from serving its global customers, the Group achieved its business expansion in domestic market, while helping overseas customers to enter the market in China. Through the enhanced interaction of markets at home and abroad, the Group also increased the rate of successful contract signing and its capabilities of industry service, further consolidating its relationship with customers, leading to strategic partnerships with a variety of customers.

4. Strengths in Technology Innovations

The Group's R1 platform product benefited from many years of practical experiences in the industry's information technology, integrating CMMI, ISO9000, RUP, and agile development theory, and using SOA architecture and technologies (including PaaS and SaaS) supported by cloud computing applications. It is an excellent tool for industry managers to perform business application integration and IT system extension when they are faced with complex management objects. The R1 platform has three tiers of capabilities: the first tier is its structuring capabilities consisting of complete platform based integration of middleware components; the second tier is the R1's project management methods and tools; and the third tier is the capability of rapid development as represented by R1 BizFoundation. Through these three-tiered capabilities, component reuse is strongly supported and development cost is reduced, while the Group's gradual accumulation of the ability to turn out ERP software and form application products can be obtained through the R1 platform.

Significant progress has been achieved for R1 in respect of cloud computing. Through the cooperation with AliCoud to jointly develop PaaS platform, both parties worked together to embed R1 products (including FramePortal, SOA Suite and BizFoundation) in Ali OS, and provided Java-based development services and cloud-based SOA services.

As one of the industry's most widely used support platforms, R1 enjoys a wide range of applications and a great number of successful cases in government, manufacturing and other fields and industries. A number of national and industry level projects that have been successfully implemented are proof that, overall consulting/design, separate development and general integration using the R1 platform can ensure success and good results of the construction of an entire large engineering system.

5. **Excellent, Stable Workforce and Strong Platform for Talent Supply**

As of 31 December 2013, the Group had 23,607 employees, mainly distributed in regions such as Mainland China, Hong Kong, Japan, the United States, and the United Kingdom. Among which, project managers, senior technicians and consultants accounted for one tenth (1/10) of the total number of technicians. This elite group has outstanding IT skills, extensive management experience, deep industry knowledge, and most of them had worked in the Group for more than five years, fully identifying themselves with its corporate culture. Meanwhile, in order to maintain the stability of the Group's core staff, the Group has developed a clear mechanism for talent promotion, and also incentive and training programs.

The Group collaborates with more than 400 universities and educational institutions, with its ETCs established in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, and Xi'an. The Group also developed practical training courses customised to the specifics of the Company's business department. The business department may participate in course design, process tracking and evaluation, select high-quality students from the large-scale training resource pool to ensure a steady stream of practical talent supply.

6. **A Win-win strategic cooperation**

The Group established a comprehensive cooperation on various aspects, such as investment and business, with a number of world-class strategic partners. This has allowed the partners to share client resources and finally achieves a win-win situation. In the middle of 2011, Legend Group's Hony Capital became a substantial shareholder of the Group. As a major information technology service provider to Hony Capital and its invested enterprises, the Group will become the core enterprise and act as an integrated platform for Hony Capital to make investments in the information technology area in the future; the Group and Huawei established a joint venture company in 2012, aiming at building a business process and IT outsourcing service company that gets a foothold in the PRC and serves the globe.

IV. BUSINESS APPROACH

The Group 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. Our technical services are mainly involved in IT solutions and outsourcing services include ITO, BPO, EPO, and more. The Group's customers, which are located in the various countries including China, the United States, Japan, Hong Kong, etc., are mainly distributed in the industries that possess high growth potentials, such as government and manufacturing, finance, telecommunications, hi-technology and so on. The Group has always adhered to the policy of technology innovation with its independent intellectual property rights as the core, and with more than 200 software copyrights and patents, such as ResourceOne (R1), the middleware platform software that provides application support for industry solutions, and TopLink, the software platform product that supports big-data exchange.

The industries that the Group's business mainly covers include government and enterprises, BFSI (banking, financial services, securities and insurance), manufacturing and circulation, telecommunications, public services, high technology and energy. The services that the Group provides mainly include:

- (PSG) Professional Services Business
  - Software Platform Products
  - Strategy and Business Consulting, IT Consulting
  - Vertical and Cross-industry Application Software and Solution Development
  - System Integration and Services
- (OSG) Outsourcing Services Business
  - Product Engineering
  - Application Development and Maintenance
  - Enterprise Application Service
  - Business, Engineering and Knowledge Process Outsourcing
- Training Business

V. DESCRIPTION OF THE GROUP'S SERVICES

- **(PSG) Professional Services Business**

Professional services business (consulting and solutions), is the backbone of the Group's business lines and has gradually become our main technical base and development kernel after more than 10 years of development and accumulation, driving the Company into a positive cycle of continuous improvement. The business covers four main segments: software platform products, strategy and business consulting and IT consulting, vertical and cross-industry application software and solution development and system integration and services.

The Group has over the years consistently adopted the consulting-driven business model, and based on its independently developed software platform products, has provided end-to-end professional services that combine consulting methodology with the information technology practices of China's enterprises, adhering to the philosophy to focus on the industry, prioritize services and strive for customers' success. In addition, the Group has trained a large number of experts in the industry, 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 Group in the solutions field in China.

1. Software Platform Products

The Group currently has two series of proprietary software platform products, i.e. ResourceOne and TopLink/TSA+ and integrates the concept of "Products are services and services are products" into the whole structure of these products, which also allows the Group to find a balance between stability and changing market demand. The Group has kept investing and improving its software platform products for over a decade to enhance the technical applicability and performance of the products, thereby continuously enhanceing the levels and standards of customer services.

Business Overview

2. **Strategy and Business Consulting, IT Consulting**

Consulting services sit at the upper end of the business value chain of the Group. By providing strategy and business consulting services, the Group can more clearly understand the intrinsic nature of customers' business and understand their real needs, so as to more effectively improve the professional level of services and to achieve the business objective of growing with customers. The Group's IT consulting business focused on increasing value for customers in the interactive activities between business-oriented and IT needs. The Group's consulting products and services are all based on rigorous and proven scientific methods and frameworks. In the areas of business processes, technology and outsourcing, the Group 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.

3. **Vertical and Cross-industry Application Software and Solution Development**

The Group provides customers in a variety of industries with End-To-End process services that include vertical and cross-industry application software and solutions. The Group uses ResourceOne 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 Group has been incorporated, including:

- In the planning and design phase, the Group 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 and an integrated business framework.

- In the scalable development and testing phase, the Group's on-site team members will work closely with the customer, keeping abreast of the customer's changing needs. The Group 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, our COE ensures an unified technological architecture and quality, thus effectively increasing repeat usage as well as reducing development time and costs.

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

- In the operation and maintenance phase, the Group's platforms, application software and solutions have been adopted in a number of strategic industries nationwide; the Group 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 Group has gained industry service capability, customer service capability, regional service capability and large project service capability. Relying upon its R1 platform software, the Group 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.

4. **System Integration and Services**

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

- **(OSG) Outsourcing Services Business**

The Group is committed to provide global customers with complete, flexible, and scalable high quality IT outsourcing services. With experienced management and technology specialists as well as a variety of delivery models, the Group is able to adapt to the changing business and technologies. At the same time, with the help of its Excellence Training Centers (ETC), the Group can integrate the needs for skilled consultants across customers of various industries, so as to provide customers with high-quality, low cost outsourcing services. The Group's outsourcing services typically take the charging model based on time and raw material cost.

1. **Product Engineering**

The Group provides product engineering services to technology product development companies, including independent software vendors and telecommunications equipment developers. The Group'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 Group has included operating system, database, middleware, network protocol, speech recognition and human-machine interface, telecom value-added applications and other software products. The Group can also provide specialised products and services, including product design, development, and quality assurance and testing.

2. **Application Development and Maintenance**

To specific customers, the Group offers application development and management services such as application software development, system maintenance and system optimisation, based on the needs of industry customers. The Group's ADM services were designed to help customers realise the scientific management of spending in IT outsourcing, enabling customers to focus more on their core competencies.

The Group 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 Group can deliver the ADM services in its Centers of Excellence (COE) or at customers' sites.

Business Overview

3. **Enterprise Application Services**

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

The Group'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), etc. Specific services provided by the Group include: packaged software implementation, customised development, maintenance and product upgrades, business intelligence (BI)/data warehouse (DW).

4. **BPO, EPO and KPO**

The Group 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 Group 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.

- **(ETC) Training Business**

The Group's Excellence Training Center (ETC) is a practical training base of computer technology for college students, as certified by the Ministry of Education of China. It is one of the industry's leading brands for mid- to high-end IT training. Through cooperation with colleges and universities, practical training based on real positions and projects are provided for college students majoring in computer sciences or other related areas. So far, the Group has established training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, and Shenyang.

In 2013, in order to conduct a deep discussion on talent nurturing amid the latest trend and to establish an efficient communication and cooperation platform between the government, colleges and universities and enterprises, ETC successfully organized "2013 Summit Forum on University-Enterprise Cooperation Service Outsourcing and Software Talents Cultivation of China" and jointly made an application for the construction of state-level project practice education centers with 18 universities, including Beijing Jiaotong University, Beijing University of Technology and Tianjin University of Technology, and obtained approval to construct the most centers among other enterprises. Through years of efforts, ETC has become "Top 10 Education Institutions in Practice of Service Outsourcing in China".

VI. INDUSTRY VERTICALS

The Group has strong presence in the following industry verticals:

1. Government and Enterprises

Over the years, as a pioneer for e-government, the Group has leveraged its extensive industry experience and its understanding of the intrinsic nature of customers' needs and based on ResourceOne, has undertaken a number of key national technological projects. As a chief integrator, the Group 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 ResourceOne 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 Group has maintained among the top three in the overall rankings in the market of government industry solutions for a few consecutive years. Through cooperation with Ali-Cloud, the Group achieved a breakthrough in the field of government cloud, and became one of the leading providers of government cloud services in China.

2. Manufacturing and Circulation

Leveraging on the Group's in-depth understanding of manufacturing and circulation industry and years of accumulation in the industry, combined with its professional IT experience and service capabilities deployed around the country, the Group has made intensive efforts over years in the manufacturing and circulation industry with a number of proprietary softwares such as MES and Logistics Execution Systems (LES), to provide customers with developed "End-to-End" services covering from automation system at the bottom to decision support system at the top, from factories application to group management and from management consulting and IT planning to systems development and IT operation and maintenance, occupying a leading position. The Group's business covers tobacco, military industry machinery, automobile, steel, pharmaceutical, printing, etc. In particular, as a strategic partner in tobacco industry information services, the Group has such core strengths as trend holding, leading IT and comprehensive all-rounded capabilities, and is engaged in the establishment of industry application standards, achieving 100% coverage of Chinese cigarette top 100 brands. MES, with its market leading scale and its Big data projects of the industry, has further enhanced and accumulated its capabilities in Big data, and expended its applications to other industries.

3. Financial Services and Banking

Thanks to professional services and TopLink, the payment platform product with proprietary intellectual properties, the Group provides personalized financial services, with secured payment as its core, to its customers in financial and banking sector. The Group has a long history in providing industry solutions, system integration services and related high-end services for its key customers including four 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, accumulating extensive experience in industry application and achieving "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. According to IDC market research, the Group 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 bank card system markets in 2010. High level of customer recognition has been achieved regarding its capabilities in business advisory and solutions segments of Internet Finance.

4. **Insurance and Securities**

With strong technical strength and extensive experience in the financial industry, the Group has already secured many prestigious customers in the insurance and securities industry, and is highly recognized by the customers for its service practices. In addition, it has established leading technical position in high-end insurance sectors, including core business operations, channels management and marketing support, back-desk management, business intelligent (BI) and insurance/securities content and knowledge management, by which it has penetrated into the core business and high-end business and become a key market player in the insurance and securities industry to help the customers to secure more competitive advantages.

5. **Telecommunications**

The Group 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 Group provides its customers with product design & development and operation & 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, its foundation has been built up, that promotes integrated communication strategy of China Mobile.

6. **Public Services**

After years of accumulating professional experiences, the Group is in a leading position in the public transportation areas such as public transport, rail transit and airport management, and has established three "First System in China" – the nation's first smart card payment and settlement system in urban transport, the nation's first one-ticket-transfer payment system in urban rail transit, and the nation's first Automatic Fare Collection system (AFC) with independent intellectual property rights. The Group provides customers in the transportation industry with solutions and professional application integration, operation and maintenance services such as Smart Card, Automatic Fare Collection system (AFC), AFC Clearing Centre (ACC), intelligent transportation, and airport operation management system. The Group's smart-card-type solutions enjoy the largest market share in China, which have been adopted by nearly 30 cities. More than 100 million cards have been issued throughout the network systems and stood up well to the test of huge customer traffic. There is a definite advantage with mobile operations' payment business. Through cooperation with strategic partners, the mobile payment business has been successfully established in the overseas market.

7. **Electricity Distribution and Energy**

Through years of experience in corporate control, ERP, supply chain management, management services, etc., the Group targets at strengthening the macro-management of enterprises engaging in the provision of electricity and oil in the energy industry, enhancing the overall requirement on corporate control, which allows it to partially enter into the core business system and management information system in the energy industry. Regarding the energy industry, the Group insists on its philosophy of "enhancing customer's value" and has established cooperation with five major enterprises in segmented industries, such as electricity generation, electricity grid and oil field, together with related cooperative partners, and involved in providing special IT solutions, corporate project management, management service IT solutions, etc. Leveraging on its "end-to-end" service capability and continuously making use of the overall requirement for the industry in the macro economy, the Group laid a solid foundation for the systematization of its customers in the energy industry with the support of a professional team and an excellent operation system. Its clients confirms its capability in electricity sales, operational inspection in terms of material, and its market position is stabilized.

8. **High-technology Business**

The Group's high-technology business clients include those located in Europe, America, Japan, Korea and Greater China, to whom we provide 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 Group was ranked the top 4 in China's overall offshore outsourcing market, ranked the top 2 in the European and American market. For the 5th consecutive year, the Group was named as "Global Outsourcing 100" by IAOP (International Association of Outsourcing Professionals). The Group's major customers include Huawei, Microsoft, NEC, etc. It 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 Group has acquired Catapult, an outstanding consulting service provider specialized in Microsoft business, and also one of the Microsoft's partners pioneered in U.S. Microsoft cloud, resulting in closer strategic cooperation between the Group and Microsoft, as well as enhancement of the Group's capabilities in cloud computing and serving Microsoft's customers globally.

VII. RECENT DEVELOPMENT

PSG Business Progress

Government and Enterprises: During the reporting period, the Group maintained its leading position in the auditing industry and successfully promoted its mature audit solutions all across the nation. The Group captured and maintained first-mover advantages by local completion of the research and development of Golden Auditing Project III with local modes developed through test. The Group made great progress in respect of expansion of new customers and new businesses, by securing two major airline customers in the civil aviation industry and successfully contracting for new media diversification development and integration platform project I with a key government media. By promoting the nationwide introduction and implementation of Phase I of Early Warning System for National Public Emergencies, the Group established customer bases for the construction of Phase II and expanded local channels. In respect of smart city, through close cooperation with Alibaba Cloud, the Group became a cloud integration service provider and undertook the consultation, planning, research, overall design and implementation for the intelligent government administration cloud project in Lishui, Zhejiang Province. By virtue of its extensive experience in large-scale projects and accurate understanding of customers' needs, the Group has stepped up and became a leading service provider of cloud models.

Business Overview

Manufacturing and Circulation: During the reporting period, the Group achieved a major breakthrough in the military industry, winning the bid for IT platform project for the headquarter of a military enterprise, and promoting IT construction of its secondary group. The Group maintained its dominant position and influences in the tobacco industry. It won the bid for two key projects in the industry, i.e. tobacco industry (cigarette industrial enterprises) equipment management information system and industry data centre, which was an important expansion of large data technology for traditional businesses, and its professional equipment management and data application capabilities further received customers' recognitions and gratifications. Data center business has become a new growth point of scale. The Group won the bids for a number of data center projects for industrial and commercial enterprises including Guangdong China Tobacco and a tobacco company in Zhejiang Province. The Group maintained its market leading position in MES (Manufacturing Execution System) sector by continuing to expand MES business scale. It was awarded a number of MES projects of industrial enterprises including Henan China Tobacco, and successfully explored tobacco redrying market in MES sector by successful bid for the implementation of MES project for a tobacco redryer. The dominant position in the monopoly internal control market was further strengthened by successful bids for the provincial tobacco monopoly internal control upgrade projects of many enterprises including Hunan Tobacco Company.

Financial Services and Banking: During the reporting period, for financial IC cards, the Group entered into agreements with a number of joint stock banks and tens of city commercial banks, maintaining the largest market share in the sector. In payment and clearance sector, the Group continued to strengthen its top three position by contracting with tens of foreign banks, joint stock banks and city commercial banks. Regarding credit and financing, the Group entered into agreements with quality customers including a number of joint stock banks in respect of its supply chain solutions, and maintained the top position in the supply chain financial market. In respect of business consulting and solutions capability in the internet financial sector were highly recognized by customers, and also laid a solid foundation for internet financial services. The Group won bids of and contracted with material customers including HSBC Software, and adopted a customized service model. It accumulated invaluable experience of serving large customers in the industry.

Insurance and Securities: During the reporting period, the Group contracted with a branch of a large state-owned property and casualty insurance company for an integrated business intelligence (BI) platform project, receiving further recognition in the business intelligence sector. The Group also successfully entered the insurance e-commerce sector, with the e-commerce project of a life-insurance company that was the first C to B insurance e-commerce platform construction project in the industry, and the e-commerce project of a state-owned insurance company was the first insurance e-commerce data mining project in the industry. The core competitiveness in respect of insurance ESB and insurance securities BPM was established. The Group also contracted with a well-known securities company for its process platform project, and with SD&C Shanghai branch for its core system maintenance, which represented the Group's involvement in the core business areas of securities industry.

Telecommunications: During the reporting period, the Group won the bid for wireless products of Fetion business development and support services of China Mobile, to provide business construction and support for Mobile Fetion and Fetion HD products for China Mobile. This project will be constructed by fully leveraging on China Mobile's own advantages to develop appropriate product design and technology implementation plans in line with the features of China Mobile as an operator and core strengths of Fetion business, in order to produce a differentiated competitive strategy. An outstanding solution will also be provided in line with the features of mobile terminals to continuously strengthen basic IM capabilities, enhance ties and provide new functionalities for mobile IM products.

Public Services: During the reporting period, the Group maintained a stable growth in respect of city smart card, and was awarded a project of a major city in Southern China, reinforced the Group's leading position in the business segment. Winning a number of bids consecutively for ACC projects for rail transit of several major cities in the Eastern and Southwestern China, the Group continued to strengthen and enhance its dominant position in the rail transit industry. The Group successfully contracted with a bank for a PBOC2.0 upgrade project for mobile subways, which was an important expansion of the Group's traditional superior business in mobile internet sector. The Group also contracted for a national unified payment platform with an operator, for a provincial integrated payment business platform with an operator, achieving significant growth in mobile operators' business. In addition, the Group continued to seek for quality third party payment clients and worked with a super-large western city to engage in billing and integrated payment handling business based on cloud computing. Meanwhile, by leveraging on its strategic partners' channels, the Group expanded its mobile payment business to overseas markets.

Medical Information: During the reporting period, the Group entered into a strategic cooperation framework agreement with a pharmaceutical information company, pursuant to which the Group, as the chief integrator undertaking the pharmaceutical information sharing platform project, would be responsible for research on the overall demand, design and production of the general integration solution and implementation of application integration, with a long-term strategic cooperation between both parties in respect of pharmaceutical information sharing system. For the purpose of implementation of the new GSP regulations, the application of Product Identification, Authentication and Tracking System (PIATS) for medicines would be extended to retail sales points such as hospitals, community health service centers (stations) and pharmacies, in order to regulate the entire process of drugs and to achieve the goal of medical information sharing by connection to health care insurance system, hospital HIS and etc..

Electricity Distribution: During the reporting period, in the electric power marketing field, the Group completed the acquisition and integration of Along Grid, achieving significant progress in the electric power marketing business. The Group also achieved further breakthroughs in various geographical markets, and strengthened its market position in the sector by leveraging on its service capabilities established through the acquisition. In the electric power materials management field, the Group established end-to-end service capabilities from consultation, research and development and implementation to maintenance by way of providing integrated storage platform solutions. The pilot web-based provincial level materials storage IT construction project was successfully accepted and became a model in the industry, which has established foundations for subsequent promotion of material storage IT construction in the industry.

Business Overview

OSG Business Progress

Huawei: During the reporting period, the joint venture with Huawei achieved significant progress in its capability construction. Based on the capability of independent offshore delivery, it actively established ability to deliver to customers more rapidly with higher quality at lower cost, and delivered more projects of higher quality independently, as well as successfully practiced in non-local delivery. By optimizing organizational structure and rationalizing personnel deployment, the personnel utilization efficiency was improved. Through IT platform construction for human resources management, financial management and project management, the joint venture has laid a solid foundation for further enhancement of its operating ability in the future. During the same period, by taking advantage of its extensive experience in the financial industry, the joint venture helped Huawei completing the delivery of electronic payment projects, and also achieved an innovative cooperation model in outsourcing from signing bill by customers to end-to-end delivery by the Group to profit distribution.

Microsoft: During the reporting period, the strategic partnership with Microsoft was deepened. As the most valuable supplier of Microsoft in the world, the Company also became its preferred supplier for MCS (Microsoft Consulting Services) in China. The Company obtained COPC Customer Operations Performance Center certification, providing recognized quality and process guarantee, and providing Microsoft with global technical supports. Meanwhile, for the cloud computing aspect, the Company set up Azure workshop and SharePoint workshop, and the cooperation with Microsoft advanced into a more strategic stage, i.e. Chinese cloud computing market expansion, which laid a foundation for joint expansion of cloud computing business in China.

Catapult Systems: During the reporting period, the Group acquired Catapult in the US, which, is an excellence consulting services provider focusing on Microsoft's business, and is Microsoft's preferred provider of integration services. The cloud service provided by Catapult has enabled it to be one of the leading partners of Microsoft for cloud transplantation in the US. With the acquisition, the strategic cooperation with Microsoft is further strengthened, and the Group's high end servicing capabilities in mobile, cloud computing, social media and analytics are enhanced, setting a solid foundation for the development of global market. By taking use of Catapult's existing advantages, the Group carried out in-depth integration with Catapult in various aspects, and expanded the market together by leveraging on Catapult's advantages in sales of Microsoft and customer relationships in the US, to capture larger market share of Microsoft in the US.

Greater China: During the reporting period, the Group established strategic partnerships with ChinaAMC, Harvest Fund, GF Fund and China Merchants Fund. Through the collaboration with a dozen of companies including ChinaAMC, the Group substantially established a leading position in the industry. Its business for Pingan Bank achieved a breakthrough in scale and became the pacesetter for win-win collaboration with customers in the sector. For internet sectors, the Group ranked among top three in the supplier evaluation of Tencent, winning the bid in its new procurement assessment. For telecommunications LTE+ sector, backed by its core customers, Datang and TD Tech, the Group continued its penetration in 4G technology related aspects, including space information, cloud computing, internet of things, mobile internet and next generation internet to achieve industry chain breakthroughs. Regarding e-commerce logistics, a strategic partnership was established with SF Express, to cover the logistics system of SF Express in all respects, including its airlines, payment, platform cooperation, storage, distribution, delivery services and etc., and vigorously promote IT capability construction for logistics.

Japan and Korea: During the reporting period, the business in Japan continued to grow steadily. In respect of BPO service, the medium and high-end business in relation to finance, personnel and insurance improved steadily. For ITO service, a breakthrough was achieved in respect of railway equipment management and billing services in the transportation industry. For terminal testing on mobile phones, a new breakthrough was achieved.

ETC Business Progress

During the reporting period, the Group signed on with 5 additional colleges (a total of 69 in aggregate), of which 5 institutes/professional colleges were jointly built (a total of 51 in aggregate); With the approval from the Ministry of Education, the Group established an " 'Undergraduate Education Project' Students Practice Education base for local colleges and universities" jointly with four universities including Jishou University, which is a single project that has the largest number of schools approved. Regarding the internet of things and mobile internet, the Group started collaboration with additional 17 universities (a total of 34 in aggregate) including Changsha University of Science in respect of laboratories construction, additional profession approval and jointly-built projects. Regarding this area, the Group jointly organized training for "young backbone tutors" nationwide with the Office of National Demonstration School of Software of Ministry of Education and China International Talent Exchange Foundation of State Administration of Foreign Experts Affairs.

Management Discussion and Analysis

The following are some of the major events that impacted the Group's operation and development in 2013:

1. **Stay determined in its transformation to suit the rapidly changing IT service market**

   In 2013, the Group management saw clearly that the IT service market is changing at a rapid pace. The impact of next generation technology in social, mobile, advanced analytics and cloud (SMAC) are starting to disrupt the traditional IT services landscape. Management feels that, on one hand, new SMAC based technology enables software services to be delivered quickly and cheaply via mobile networks and over the internet (via the Software as a Service, or SaaS model), drastically reducing the overall cost of software development. On the other hand, emerging mobile and social usage as well as the use of cloud calculation creates a new set of demands for new software that is needed to first manage the vast data traffic, and then analyze them through Big-Data analytical tools.

   Faced with the pressure of increased labor cost, the Group realized that it must transform its business model with cloud platform, cloud based applications, and big data analytics, ultimately changing the traditional IT business model to adapt to the changes in IT service market. The Group believes that through its perseverance, it will overcome the challenge and successfully transform itself.

2. **Research and development of "JointForce", a cloud-based crowd sourcing platform**

   China's vast yet fragmented IT services market and a large quantity of underused software engineers, are all common pain points and challenges that the IT industry face today. Customers are constantly looking for better quality services; software engineers are constantly looking to showcase their skills and earn more; and IT service businesses are constantly looking for better ways to lower labor costs and improve productivity.

   In 2013, based on the Group's SMAC capabilities and organizational philosophy, combined with the above industry pain points, the Group introduced "JointForce" – a cloud based crowd-sourcing platform. "JointForce" will become an efficiency platform for the IT service businesses, a new working platform for software engineers, and a service-providing platform for customers.

   Using "JointForce", the Group can post real time tasks onto the platform, and allow engineers, either from within or outside the Group, to choose what they want and be paid upon the completion of the tasks.

   To examine the complete functionality of the "JointForce" platform, the Group performed both online and offline delivery tests to test the actual functionality of the platform during the reporting period. This investment in testing and the platform development represented additional expenses during the period. However, the Group firmly believes that it was imperative to introduce the "JointForce" platform. On one hand, this platform can effectively increase the Group's operation efficiency by cutting out the time to find the right engineers for the tasks, evident in the traditional management model. On the other hand, from the engineer's perspective, an opportunity to showcase their expertise and the monetary incentive will make them more eager to work and thus increase their work efficiency. In addition, other IT service companies can use this platform to allocate and manage different tasks. For this reason, the Group believes that the introduction of "JointForce" will not only generate additional revenue for the Group, but also gradually change the entire IT service industry.

3. **Expand to Oversea Markets**

The Group acquired Catapult, an American SMAC service provider, to obtain novel oversea SMAC technologies and gain entrance to new markets. Catapult's expertise covers the entire chain of Microsoft technologies, showing competitive advantages especially in the next generation cloud computing, office 365's service capabilities, and Azure's public cloud base infrastructure as a service. Catapult has the best Microsoft system integration team, and is an important partner of Microsoft. This will allow the Group to strengthen its strategic partnership with Microsoft and expect more businesses with Microsoft in the coming years.

The partnership with Catapult increases the Group's SMAC capabilities and business scale. It will allow the Group to carry out upstream sales, explore global customers, and bid for bigger and long-term service projects. The Group strives to become a global IT service provider with the ability to respond to the international demand for "end-to-end" IT consulting services, and fully satisfy the customers' need for IT solutions.

4. **Substantial growth in Huawei's Outsourcing Business with increased profitability**

The joint venture between the Group and Huawei achieved critical success in respect to business delivery and overall strategy; Huawei is fully confident in the Group. In 2013, the joint venture became Huawei's biggest and highest quality outsourcing provider; there are good synergy from business integration and management, resulting in increase in profitability. As the joint venture's business operation stabilizes, the shareholders from both sides have made good returns. Huawei achieved success with this strategic layout, and received stable investment return in 2013. The Group helped connect the business strategy and quality control of its biggest strategic client. In addition, the Group, on the basis of increasing its own software management standards, will help Huawei build a solid foundation to expand its software service business into the telecommunication market as well as the global service market.

The Group believes that in 2014, the joint venture will achieve an even higher increase of outsourcing business and profitability with Huawei.

5. **Impact of the Japanese Yen exchange rate**

Due to the decreasing value of Japanese Yen in 2013, the revenue and profit from the Group's Japanese businesses have decreased. The Group is in negotiation with the customers in respect to unit price adjustment and is actively conducting analysis and research on potentially hedging the Japanese Yen. It is expected that in 2014 as the exchange rate for the Japanese Yen becomes more stable, the revenue and profit from the Group's business will steadily rebound.

Management Discussion and Analysis

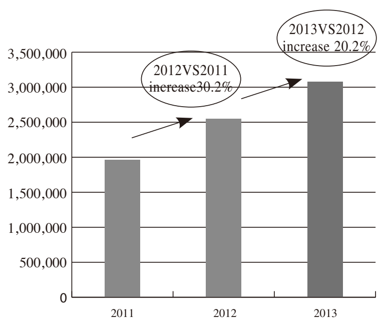
In 2013, the Group's businesses maintained their stable growth, with year-on-year increase of revenue of 15.8%, year-on-year increase of service revenue of 20.2%, and year-on-year profit growth of 33.2%.

	2013	2012	Growth rate
	RMB'000	RMB'000	
Revenue	**3,205,985**	2,768,171	15.8%
Service revenue	**3,067,927**	2,551,395	20.2%
Profit of the year	**200,028**	150,142	33.2%
Profit for the year attributable to the owners of the company	**148,301**	133,189	11.3%

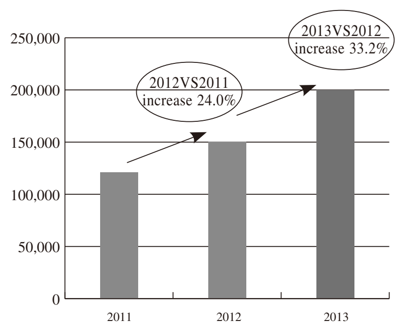
The marginally lower growth in overall revenue than service revenue reflected the further decrease in revenue from sales of hardware year-on-year, the percentage of which to overall revenue was only 4.3% during this reporting period, as compared with 7.8% in the same period last year.

The growth in key operating data of the Group in the year 2013 is set out as follows:

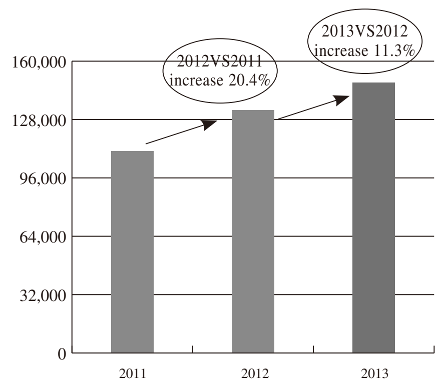
Service revenue



Profit for the year



Profit for the year attribute to the Owners of the Company



KEY OPERATING DATA

	2013 RMB'000	2012 RMB'000	% Increase (over the same period last year)
Revenue	**3,205,985**	2,768,171	15.8%
Service revenue	**3,067,927**	2,551,395	20.2%
Cost of sales	**(2,200,799)**	(1,852,830)	18.8%
Gross profit	**1,005,186**	915,341	9.8%
Other income, gains and losses	**61,836**	55,235	12.0%
Selling and distribution costs	**(175,369)**	(160,692)	9.1%
Administrative expenses	**(512,223)**	(454,761)	12.6%
Research and development cost expensed	**(52,156)**	(57,055)	(8.6%)
Allowance for doubtful debts	**(24,613)**	(15,807)	55.7%
Amortisation of intangible assets and prepaid lease payments	**(49,803)**	(42,967)	15.9%
Gain arising from changes in fair value of contingent consideration on acquisition of business	**–**	5,557	(100%)
Impairment loss recognized in respect of goodwill	**–**	(28,054)	(100%)
Finance costs	**(47,296)**	(31,111)	52.0%
Share of results of associates	**(1,138)**	2,030	(156.1%)
Gain on disposal of associates	**494**	–	N/A
Profit before taxation	**204,918**	187,716	9.2%
Taxation	**(4,890)**	(37,574)	(87.0%)
Profit for the year	**200,028**	150,142	33.2%
+Taxation	**4,890**	37,574	(87.0%)
+Finance costs	**47,296**	31,111	52.0%
+Depreciation of property, plant and equipment	**52,562**	46,577	12.8%
–Gain arising from changes in fair value of contingent consideration on acquisition of business	**–**	5,557	(100.0%)
+ Impairment loss recognized in respect of goodwill	**–**	28,054	(100.0%)
+Amortisation of intangible assets and prepaid lease payments	**49,803**	42,967	15.9%
–Share of results of associates	**(1,138)**	2,030	(156.1%)
–Gain on disposal of associates	**494**	–	N/A
EBITDA	**355,223**	328,838	8.0%
+Share option expenses	**5,372**	11,544	(53.5%)
+Foreign exchange loss	**1,860**	72	2483.3%
+Allowance for doubtful debts	**24,613**	15,807	55.7%
Business contribution profit	**387,068**	356,261	8.6%

Management Discussion and Analysis

GENERAL OVERVIEW

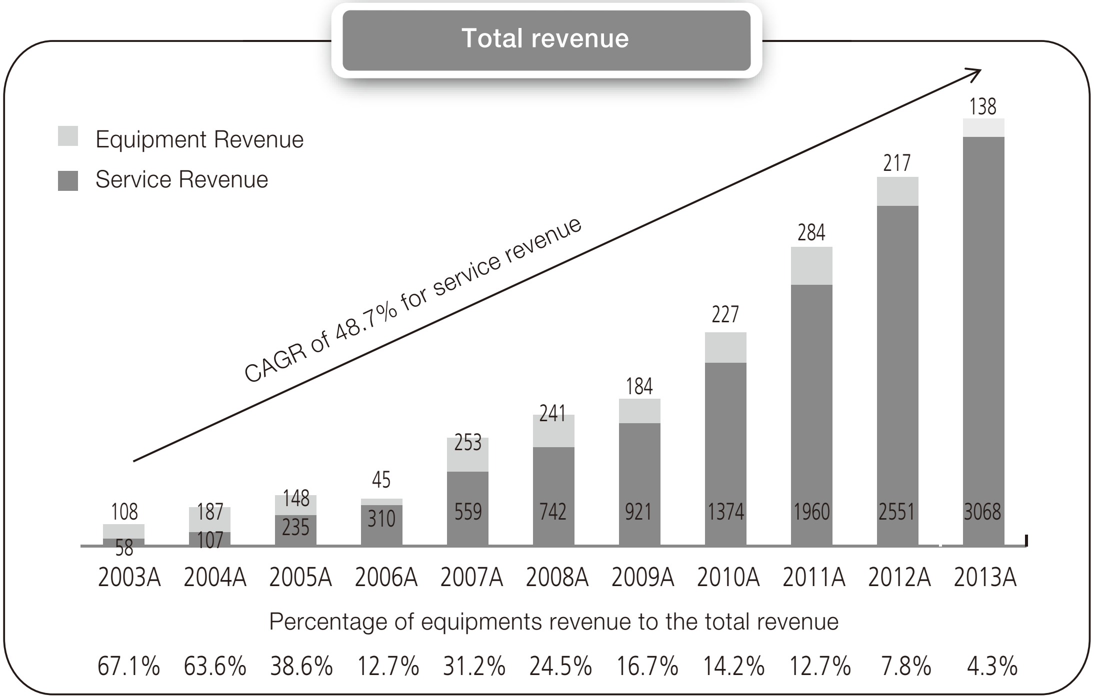
In 2013, the growth in revenue, service revenue and results by business lines of the Group is set out as follows:

	Revenue			Service revenue			Results		
	2013 RMB'000	2012 RMB'000	Growth rate	**2013 RMB'000**	2012 RMB'000	Growth rate	**2013 RMB'000**	2012 RMB'000	Growth rate
Professional Services Business (PSG)	**1,694,727**	1,452,782	16.7%	**1,556,669**	1,236,006	25.9%	**142,294**	120,502	18.1%
Outsourcing Services Business (OSG)	**1,416,895**	1,221,800	16.0%	**1,416,895**	1,221,800	16.0%	**102,780**	113,699	(9.6%)
Training Business	**94,363**	93,589	0.8%	**94,363**	93,589	0.8%	**(2,212)**	12,813	(117.3%)
Total	**3,205,985**	2,768,171	15.8%	**3,067,927**	2,551,395	20.2%	**242,862**	247,014	(1.7%)

For the service revenue segments, service revenue of Professional Service Business and Outsourcing Services Business increased by 25.9% and 16.0% respectively. Service revenuce of Training Business remained stable. For Professional Service business, solid growths were recorded in circulation and manufacturing business, finance and banking business, as well as in electricity business, providing remarkable contributions to the overall Professional Service Business; For Outsourcing Service Business, Huawei business and Great China Business sustained their higher growth rates as compared to last year, and have become a major contributing force for the growth of Outsourcing Service Business.

For segment results, the Professional Services Business recorded a year-on-year increase of 18.1%. The Professional Services Business maintained its growth despite facing increased in labor cost and additional cost for research, development and testing for "Joint Force." The Outsourcing Services Business recorded a year-on-year decrease of 9.6%, mainly due to the decreasing value of Japanese Yen and USD. If the effect from currency exchange were eliminated, the Outsourcing Services Business would result in a year-on-year increase of 20%. The Training Business recoveded a loss in the reporting period because it made a one time cost adjustment to match the Group's business transformation for its new strategy. The Group expects the Training Business to return to normal and continue to grow in results and profit in 2014.

Since the listing on the Growth Enterprise Market in 2003, the Group's revenue and service revenue have maintained rapid growth, recording a CAGR of 34.5% and 48.7% over the years from 2003 to 2013 respectively. The details are set out as follows:



CUSTOMER

The Group's customers include large enterprises headquartered in Greater China, Europe, the US and Japan. It has a relatively large market share in the fast-growing Chinese market, particularly in the mainstream industries such as the government and manufacturing industry, financial services and banking industry, telecom industry and high-tech industry. In 2013, service revenue from the top five customers accounted for 41.1% of the Group's total service revenue while those from the top ten customers accounted for 46.3%. With the Group's continuous development of new customers and intensive tapping of existing customers in the vertical industries, it is expected that the proportion of service revenue from the top ten customers to the Group's total service revenue will further decline.

In 2013, there were 1,415 active customers, of which 706 customers are new customers. Of the new customers, some are from the Group's acquisition of Catapult Company in November 2013. Catapult Company has extensive customer base, and the Group believe that Catapult will bring more business opportunities for the Group's future expansion in the foreign market. In 2013, the Group has 61 large customers who contributed to more than RMB6 million of service revenue. The new large customers included a large Chinese Internet Company, a global electrical appliance producer, and a large scale gold mining conglomerate.

Management Discussion and Analysis

MARKET

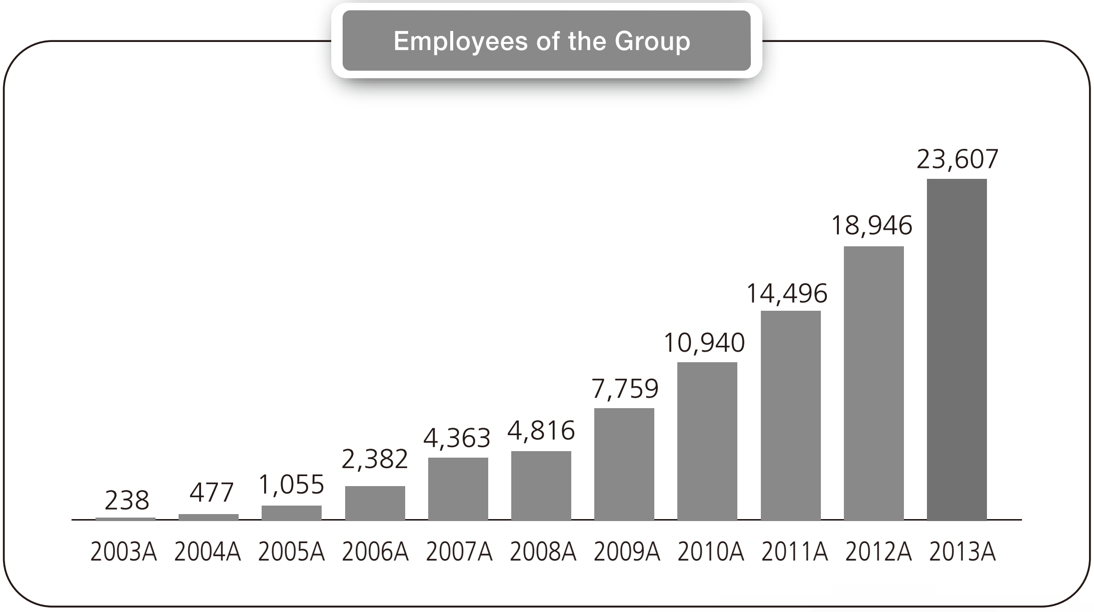
The Group operated its businesses mainly in Greater China. In 2013, the Group continued to set Greater China market as an important area for development. China's strong economic growth and the immense market potentials embedded in the region give rise to long-term growth opportunities for the Group. In addition, several of the Group's large multinational corporate customers also intended to set China as the most crucial part of their global layout, which was a clear indication of their confidence in the Chinese economy and a rare business development opportunity for the Group.

Human Resources

As of the end of 2013, the Group had altogether 23,607 employees, representing an increase of 24.6% over 18,946 employees as of the end of 2012, of which 21,952 employees were technicians accounting for 93.0% of the Group's total number of employees, and 2,722 employees were project managers and key consulting staff accounting for 12.4% of the Group's total number of technical employees.

The Group's ETC business line cooperated with over 400 universities, colleges and education institutions in setting up training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing and Chengdu to develop customised practical training programmes for the business divisions of the Group. Each business division could participate in the course design, process tracking and appraisal to select quality students from a huge talent pool, ensuring constant supply of practical personnel.

Since the listing on the Growth Enterprise Market in 2003, the number of the Group's personnel has maintained rapid growth. The details are set out as follows:



EARNINGS CAPABILITY

In 2013, the Group's EBITDA was RMB355,223,000 (2012: RMB328,838,000), representing a growth of 8.0% over the same period of previous year. EBITDA ratio was 11.1% in 2013 (2012: 11.9%), representing a year-on-year decrease of 0.8% (EBITDA ratio was 11.6% if measured on the basis of service revenue (2012: 12.9%), representing a decrease of 1.3% over the same period of the previous year). Set out below is the breakdown for the reconciliation of the profit for the year to EBITDA:

	2013 RMB'000	2012 RMB'000	Growth rate
Profit (Loss) for the year	**200,028**	150,142	33.2%
+Taxation	**4,890**	37,574	(87.0%)
+Finance costs	**47,296**	31,111	52.0%
+Depreciation of property, plant and equipment	**52,562**	46,577	12.8%
–Gain arising from changes in fair value of contingent consideration on acquisition of business	**–**	5,557	(100%)
+Impairment loss recognized in respect of goodwill	**–**	28,054	(100%)
+Amortisation of intangible assets and prepaid lease payments	**49,803**	42,967	15.9%
–Share of results of associates	**(1,138)**	2,030	(156.1%)
–Gain on disposal of associates	**494**	–	N/A
EBITDA	**355,223**	328,838	8.0%

In order to assist shareholders and investors in comparing the Group's business trends during different reporting periods and in understanding more clearly the Group's ongoing business achievements and to facilitate the comparison of the Group's business achievements with other similar companies, it has excluded the impacts of the profit and loss items of non-business and non-cash nature in the EBITDA (i.e. share option expenses, net foreign exchange (gain) loss and allowance for doubtful debts) in its calculation of the business contribution profit for 2013. Set out below is the breakdown for the reconciliation of EBITDA to business contribution profit:

	2013 RMB'000	2012 RMB'000	Growth rate
EBITDA	**355,223**	328,838	8.0%
+Share option expenses	**5,372**	11,544	(53.5%)
+Net foreign exchange loss	**1,860**	72	2,483.3%
+Allowance for doubtful debts	**24,613**	15,807	55.7%
Business contribution profit	**387,068**	356,261	8.6%

In 2013, the Group's business contribution profit was RMB387,068,000 (2012: RMB356,261,000), representing a year-on-year growth of 8.6%. In 2013, the business contribution profit margin was 12.1% (2012: 12.9%), representing a decrease of 0.8% over the same period of the previous year (the business contribution profit margin was 12.7% (2012: 14.0%) if measured on the basis of service revenue, representing a decrease of 1.3% over the same period of the previous year).

Management Discussion and Analysis

OPERATING RESULTS

The following table sets out the Group's consolidated statement of comprehensive income for 2013 and 2012:

	2013 RMB'000	Percentage of revenue	Percentage of service revenue	2012 RMB'000	Percentage of revenue	Percentage of service revenue
Revenue	3,205,985			2,768,171		
Service Revenue	3,067,927			2,551,395		
Cost of sales	(2,200,799)	(68.6%)		(1,852,830)	(66.9%)	
Gross profit	1,005,186	31.4%	32.8%	915,341	33.1%	35.9%
Other income, gains and losses	61,836	1.9%	2.0%	55,235	2.0%	2.2%
Selling and distribution costs	(175,369)	(5.5%)	(5.7%)	(160,692)	(5.8%)	(6.3%)
Administrative expenses	(512,223)	(16.0%)	(16.7%)	(454,761)	(16.4%)	(17.8%)
Research and development cost expensed	(52,156)	(1.6%)	(1.7%)	(57,055)	(2.1%)	(2.2%)
Provision for doubtful debts	(24,613)	(0.8%)	(0.8%)	(15,807)	(0.6%)	(0.6%)
Amortisation of intangible assets and prepaid lease payments	(49,803)	(1.6%)	(1.6%)	(42,967)	(1.6%)	(1.7%)
Gain arising from changes in fair value of contingent consideration on acquisition of business	–	0.0%	0.0%	5,557	0.2%	0.2%
Impairment loss recognized in respect of goodwill	–	0.0%	0.0%	(28,054)	(1.0%)	(1.1%)
Finance costs	(47,296)	(1.5%)	(1.5%)	(31,111)	(1.1%)	(1.2%)
Share of results of associates	(1,138)	(0.04%)	(0.04%)	2,030	0.1%	0.1%
Gain on disposal of associates	494	0.02%	0.02%	–	0.0%	0.0%
Profit before taxation	204,918	6.4%	6.7%	187,716	6.8%	7.4%
Taxation	(4,890)	(0.2%)	(0.2%)	(37,574)	(1.4%)	(1.5%)
Profit for the year	200,028	6.2%	6.5%	150,142	5.4%	5.9%

Comparison of the annual results of 2013 with 2012:

REVENUE

In 2013, revenue of the Group amounted to RMB3,205,985,000 (2012: RMB2,768,171,000), representing a growth of 15.8% compared to that of the same period for the previous year. Of which, service revenue was RMB3,067,927,000 (2012: RMB2,551,395,000), representing a year-on-year growth of 20.2%, which was attributed to the constantly expanding customer base and the continuous and diversified development of the Group's main businesses.

The growth of Professional Service Business was mainly due to substantial contribution from stronger growths recorded in mobile and manufacturing business, finance and banking business, and electrify as well as energy business as compared to last year to overall professional services businesses.

For the Outsourcing Service Business, in the background of challenging environment experienced by our IT outsourcing business, Huawei Business and Great China Business have achieved faster-growing revenues. However, due to the depreciation of foreign currencies including Japanese Yen and USD against RMB, business of foreign currencies were affected. Japanese revenue recorded a drop in the growth and Euro-american revenue has slowed down.

In view of the prevailing condition, we have taken advantage of the capacity of our new service business, and developed our professional ability in cloud computing technology by utilizing our available resources. In fact, we have already commenced our work, closely collaborated with Alibaba, our strategic partner, and have captured the preemptive opportunities. As a popular business, our awarded China Mobile Wireless Fetion project has achieved a higher profit margin than that of traditional business. However, as Fetion business only started its project operation by second half of 2013, therefore its contribution to the revenue in the reporting period was relatively small, and has only created limited effect to the increase in overall business profit margin. It is believed that by continuously putting effort in the setup of cloud and mobile internet business, the overall profit margin level of the Groups will be enhanced steadily.

In 2013, the Group's revenue and service revenue by contract model are set out as follows:

	Revenue RMB'000	Weight	Service Revenue RMB'000	Weight
Fixed price	1,742,992	54.4%	1,604,934	52.3%
Time and material	1,364,353	42.6%	1,364,353	44.5%
Quantity-based	98,640	3.0%	98,640	3.2%
Total	**3,205,985**	**100%**	**3,067,927**	**100%**

In 2013, Revenue from the Group's three business lines accounted for 52.9%, 44.2% and 2.9% of the Group's total revenue respectively (2012: approximately 52.5%, 44.1%, and 3.4% respectively). The growth in revenue of each business line is set out as follows:

	2013 RMB'000	Weight	2012 RMB'000	Weight	Growth rate
Professional Services Business (PSG)	**1,694,727**	**52.9%**	1,452,782	52.5%	16.7%
Outsourcing Services Business (OSG)	**1,416,895**	**44.2%**	1,221,800	44.1%	16.0%
Training Business	**94,363**	**2.9%**	93,589	3.4%	0.8%
Total revenue	**3,205,985**	**100%**	2,768,171	100%	15.8%

Service Revenue from the Group's three business lines in 2013 accounted for 50.7%, 46.2% and 3.1% of the Group's total service revenue respectively (2012: approximately 48.4%, 47.9% and 3.7% respectively). The growth in service revenue for each business line is set out as follows:

	2013 RMB'000	Weight	2012 RMB'000	Weight	Growth rate
Professional Services Business (PSG)	**1,556,669**	**50.7%**	1,236,006	48.4%	25.9%
Outsourcing Services Business (OSG)	**1,416,895**	**46.2%**	1,221,800	47.9%	16.0%
Training Business	**94,363**	**3.1%**	93,589	3.7%	0.8%
Total service revenue	**3,067,927**	**100%**	2,551,395	100%	20.2%

COST OF MAIN BUSINESSES

In 2013, cost of the Group's main businesses accounted for 68.6% of the revenue (2012: 66.9%), representing an increase of 1.7% as compared with the same period of the previous year. Cost of main businesses of the Group amounted to RMB2,200,799,000 (2012: RMB1,852,830,000), representing an increase of 18.8% year on year.

GROSS PROFIT

In 2013, the Group's gross profit was approximately RMB1,005,186,000 (2012: RMB915,341,000), representing an increase of 9.8% year on year. In 2013, the Group's gross profit margin was approximately 31.4% (2012: 33.1%), representing a decrease of 1.7% as compared with the same period of the previous year.

The gross profit margin which was calculated based on service revenue was 32.8% in 2013 (2012: 35.9%), representing a decrease of 3.1% year on year. The profit margin calculated from service revenue has dropped. The decrease was mainly due to the depreciation of the exchange rates of Japanese Yen and US dollar, US Dollar and other foreign currencies during the reporting period, that resulted in year-on-year decrease in both revenue dominated in foreign currencies and its gross profit margin on one hand, as well as the continuous increase of staff costs and dual-submission for functional tests of "JointForce" platform, that resulted in the rising direct costs and the decrease of gross profit margin.

To cope with the rising labour cost in the future, apart from streamlining measures, the Group will mitigate its pressure created by increased labour cost with the following measures:

1. Focusing on next generation technology and higher-margin businesses, such as cloud computing and mobile Internet technologies like our China Mobile Fetion business, E-government cloud, Medical cloud, that could create higher margin than our prevailing business.

2. "JointForce" platform – a collaboration platform based on cloud technologies, will be launched in 2014, in order to enhance operational efficiency and the utilization rate among our staff.

OTHER INCOME, GAINS AND LOSSES

In 2013, other income amounted to RMB61,836,000 (2012: RMB55,235,000), representing an increase of 12.0% over the same period of the previous year. The main reason for the increase is due to the increase in government subsidies in 2013 as compare to 2012.

OPERATING EXPENSES

In 2013, selling and distribution costs amounted to RMB175,369,000 (2012: RMB160,692,000), representing an increase of 9.1% as compared to 2012 and the proportion of selling and distribution costs to revenue was 5.5% as compared to 5.8% in 2012, representing a decrease of 0.3% over the same period of the previous year. In 2013, the proportion of selling and distribution costs to service revenue was 5.7%, a decrease of 0.6% compared with 6.3% in 2012. This has reflects the efficiency improvement of the Group in handling sales.

In 2013, administrative expenses amounted to RMB512,223,000 (2012: RMB454,761,000), representing a year-on-year growth of 12.6%. In 2013, the proportion of administrative expenses to revenue was 16.0%, an decrease of 0.4% compared with 16.4% for 2012. In 2013, the proportion of administrative expenses to service revenue was 16.7%, representing a year-on-year a decrease of 1.1% as compared with 17.8% in 2012. The decrease was mainly due to the Group's establishment of administrative and business operation supporting platform in previous years, which has created initial effects in this year. From 2014 onwards, we hope that such efforts would create more remarkable enhancement on operational efficiency.

In 2013, research and development cost expensed were RMB52,156,000 (2012: RMB57,055,000), representing a decrease of 8.6% over 2012, and the proportion of research and development costs expensed to revenue was 1.6%, representing a year-on-year a decrease of 0.5% as compared with 2.1% in 2012.

Management Discussion and Analysis

EBITDA AND BUSINESS CONTRIBUTION PROFIT

In 2013, the Group recorded an EBITDA of approximately RMB355,223,000 (2012: RMB328,838,000 million), representing an increase of 8.0% over the same period of the previous year. In 2013, the ratio of EBITDA to revenue was 11.1% (2012: 11.9%), representing a decrease of 0.8% over the same period of the previous year. The ratio of EBITDA which was calculated based on the service revenue was 11.6% (2012: 12.9%), representing a drop of 1.3% over the same period of the previous year.

In 2013, business contribution profit amounted to RMB387,068,000 (2012: RMB356,261,000), representing an increase of 8.6% over the same period of the past year. In 2013, the business contribution profit margin dropped by 0.8% over the same period of 2012 to 12.1% (2012: 12.9%). Business contribution profit margin which was calculated based on the service revenue was 12.7% (2012: 14.0%), representing a decrease of 1.3% over the same period of 2012.

The year-on-year decrease in EBITDA and business contribution profit margin was mainly due to the fact that although the Group has seen initial effects in this year with its establishment of business operation supporting platform, it could not fully offset the effects from rising labour cost on the profit margin calculated from service revenue.

FINANCE COSTS AND INCOME TAX

In 2013, finance costs accounted for 1.5% of the revenue, representing an increase of 0.4% as compared with that of 1.1% in 2012. Finance costs for the year amounted to RMB47,296,000 (2012: RMB31,111,000), representing an increase of 52.0% over 2012, which was mainly due to the increase of current fund borrowings in the reporting period.

In 2013, income taxes accounted for 0.2% of the revenue, representing a significant decrease of 1.2% compared with 1.4% in the corresponding period of 2012. Income taxes for the year amounted to RMB4,890,000 (2012: RMB37,574,000), representing a decrease of 87.0% over 2012, which was mainly due to the income tax remittance for Key Software Enterprises as well as the tax reduction for joint ventures. In the Period, the Group received better taxation benefits as compared to the last year. The Group expects that, in the reporting period, such taxation benefits will be sustained, while the actual scale of such would be determined by national policies.

OTHER NON-CASH EXPENSES

In 2013, the proportion of depreciation of property, plant and equipment to revenue was 1.6%, representing a decrease of 0.1% as compared with that of 1.7% for the same period of 2012. Depreciation of property, plant and equipment amounted to RMB52,562,000 (2012: RMB46,577,000), representing an increase of 12.8% over 2012 mainly due to the increase in depreciation due to purchase of fixed assets to address its personnel expansion during the year.

In 2013, the proportion of amortisation of intangible assets to revenue was 1.6%, remained at the same level as compared with 1.6% in the same period of 2012. Amortisation of intangible assets amounted to RMB49,803,000 (2012: RMB42,967,000), representing an increase of 15.9% over 2012, primarily due to the increase of research and development investment, which resulted in the increase in amortization of capitalized research and development expanse in the reporting period, as compared to last year, while the newly acquired electricity business has also created amortization of intangible asset in the reporting period.

In 2013, the proportion of share option expenses to revenue was 0.2%, a decrease of 0.2% as compared with 0.4% in the same period of 2012. Share option expenses amounted to RMB5,372,000 in 2013 (2012: RMB11,544,000), representing a substantial decrease of 53.5% over 2012, primarily due to much less share options issued in recent three years than those issued before 2010, as a result of which, the share option expenses allocated for 2013 were further decreased as compared with those for 2012.

In 2013, the proportion of provision for doubtful debts was RMB24,613,000 (2012: RMB15,807,000). Its proportion revenue was 0.8%, representing an increase of 0.2% as compared to the corresponding period of last year (2012: 0.6%). It was mainly due the Group's adoption of more conservative policies on provision for doubtful debts.

In 2013, there was no gain arising from changes in fair value of contingent consideration payable on acquisition of business (2012: RMB5,557,000).

In 2013, there was no impairment loss recognised in respect of goodwill (2012: RMB28,054,000).

PROFIT FOR THE YEAR

In 2013, the Group achieved a profit for the year of RMB200,028,000 (2012: RMB150,142,000), representing an increase of 33.2% over the same period of last year. In 2013, profit for the year accounted for 6.2% to revenue (2012: 5.4%), representing an increase of 0.8% over last year. In 2013, profit for the year accounted for 6.5% to service revenue (2012: 5.9%), representing an increase of 0.6% over the same period of last year. The increase net profit margin was mainly due to Group's establishment of administrative and business operational supporting platform, which has created initial effects, leading to a lowered sales expanse rate and operational expense rate as compared to last year. Meanwhile, income tax for the year was substantially decreased as compared to last year, which has, to some extent, offset the effects created by the decrease of project margin. The Group believes that by the increase of future income scale, and the application of the newly delivered "Joint Force" Platform, as well as the continuous improvement in sales expanse rate and operation expanse rate, the net profit margin of the Group will be continuously enhanced.

EARNINGS PER SHARE

Excluding the profit attributable to minority interests, in 2013, the Group's profit for the year attributable to owners amounted to RMB148,301,000 (2012: RMB133,189,000), representing an increase of 11.3%.

One change to the joint venture between the Group and Huawei is that Huawei started to share 40% of joint venture profit after the joint venture successfully integrated with one another and entered into normal state of business operations in 2013. Thus, the 2013 annual profit attributable to non-controlling interests increased significantly to RMB51,727,000 (2012: RMB16,953,000). Excluding this change, the Group's profit for the year attributable to the owners grew by 41.1% over last year.

Based on the Group's profit for the year attributable to the owners, the basic earnings per share for 2013 was approximately RMB8.37 cents (2012: RMB7.99 cents), representing an increase of 4.8%. Excluding the impact of the new joint venture profit sharing mentioned above, the Group's basic earnings per share for the year 2013 was approximately RMB10.61 cents, representing an increase of 32.8% over the same period last year.

Corporate Governance Report

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 and Corporate Governance Report (the "Code") (previously known as Code on Corporate Governance Practices (the "Former Code")) of 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 Code from 1 January 2013 to 31 December 2013, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 20 May 2013 (the "2012 AGM") (deviated from code provision E.1.2) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2012 AGM; (ii) the roles of chairman and chief executive officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1).

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") in Appendix 10 of the Listing Rule relating to dealings is securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2013.

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
Mr. Wang Hui
Mr. Jiang Xiaohai *(Retired on 20 May 2013)*

Non-executive directors:

Mr. Zhao John Huan
Dr. Zhang Yaqin
Mr. Lin Sheng
Ms. Shen Lipu *(Retired on 20 May 2013)*

Independent non-executive directors:

Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Song Jun
Mr. Xu Zeshan *(Retired on 20 May 2013)*

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.

2. Board Meetings

During the year ended 31 December 2013, two full board meetings were held on 28 March and 19 August and the attendance of each director is set out as follows:

Name of Director		Number of attendance
Executive Directors:		
Dr. Chen Yuhong		2/2
Dr. Tang Zhenming		2/2
Mr. Wang Hui		2/2
Mr. Jiang Xiaohai	*(retired on 20 May 2013)*	1/1
Non-executive Directors:		
Mr. Zhao John Huan		2/2
Dr. Zhang Yaqin		2/2
Mr. Lin Sheng		2/2
Ms. Shen Lipu	*(retired on 20 May 2013)*	1/1
Independent non-executive Directors:		
Mr. Zeng Zhijie		2/2
Dr. Leung Wing Yin Patrick		2/2
Dr. Song Jun		2/2
Mr. Xu Zeshan	*(retired on 20 May 2013)*	1/1

3. Functions of the Board of Directors

The Board is currently responsible for corporate strategy and development, overseeing the business operations of the Group, financial reporting, legal and regulatory compliance, directors' appointments, risk management, major acquisitions, disposals and capital transactions. Major corporate matters delegated by the Board to management include preparation of annual and interim accounts for Board's approval, execution of business strategies and initiatives adopted by the Board and implementation of internal control system.

4. ***Independent Non-executive Directors***

The four 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 four 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.

5. ***Chairman and Chief Executive Officer***

Code provision A.2.1 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 Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership and 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. ***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 2014, the board of Directors resolved that Dr. Tang Zhenming, Mr. Zeng Zhijie and Dr. Song Jun 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.

7. ***Directors' Training***

According to the code provision A.6.5 of the 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.

8. ***Board Diversity Policy***

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

D. BOARD COMMITTEES

1. Remuneration Committee

During the year under review, the chairman of the committee was Dr. Leung Wing Yin Patrick and other members included Dr. Chen Yuhong, Mr. Zeng Zhijie and Mr. Xu Zeshan (retired on 20 May 2013). 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 role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, 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, 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
Mr. Xu Zeshan	*(retired on 20 May 2013)*	1/1

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2014.

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 37 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 on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Corporate Governance Code and Corporate Governance Report of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2013, the audit committee comprised of three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan (retired on 20 May 2013). Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a semi-yearly basis during the year ended 31 December 2013.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2013 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.

During the year under review, two meetings were held by the audit committee. Details of attendance of 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
Mr. Xu Zeshan	*(retired on 20 May 2013)*	1/1

3. *Nomination Committee*

The Company established a nomination committee on 28 March 2012 with written terms of reference in compliance with the requirement in the Corporate Governance Code and Corporate Governance Report of the Listing Rules. 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 2013, 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, Mr. Xu Zeshan (retired on 20 May 2013). 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
Mr. Xu Zeshan	*(retired on 20 May 2013)*	1/1

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 are estimates made are prudent and reasonable.

The Directors acknowledge 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 acknowledged 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 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 of the Company 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 RMB5.58 million to the external auditor for their services including audit and other services relating to financial information.

F. 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.

Report of Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2013.

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 2013 are set out in the consolidated statement of comprehensive income on page 61.

The Directors do not recommend the payment of a final dividend for the year.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2013 are RMB1,029,341,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 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.

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 156. This summary does not form part of the audited financial statements.

DIRECTORS

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

Executive Directors:

Dr. Chen Yuhong
Dr. Tang Zhenming
Mr. Wang Hui
Mr. Jiang Xiaohai *(retired on 20 May 2013)*

Non-executive Directors:

Mr. Zhao John Huan
Dr. Zhang Yaqin
Mr. Lin Sheng
Ms. Shen Lipu *(retired on 20 May 2013)*

Independent non-executive Directors:

Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Song Jun
Mr. Xu Zeshan *(retired on 20 May 2013)*

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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.

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/herself.

Dr. Tang Zhenming, Mr. Wang Hui, Mr. Jiang Xiaohai, Mr. Zhao John Huan, Dr. Zhang Yaqin, Mr. Lin Sheng and Ms. Shen Lipu have not entered into service agreements with the Group. Dr. Tang Zhenming, Mr. Wang Hui and Mr. Jiang Xiaohai receive no remuneration for holding their office as executive Directors. Mr. Zhao John Huan, Dr. Zhang Yaqin, Mr. Lin Sheng and Ms. Shen Lipu receive no remuneration for holding their office as non-executive Directors.

Mr. Zeng Zhijie was appointed as an independent non-executive Director pursuant to letters of appointment for a term of 2 years from 20 June 2003, and his appointment have continued since expiry of such term. Mr. Zeng Zhijie receives an annual remuneration of HK$120,000 for his office.

Dr. Leung Wing Yin Patrick, Dr. Song Jun and Mr. Xu Zeshan have not entered into any service agreements as independent non-executive Directors with the Group. Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan receive no remuneration for holding his office as an independent non-executive Director.

None of the Directors has entered into any service agreements with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Details of the Directors' remuneration are set out in the Annual Report to the financial statements. Save as disclosed in note 9 of the Annual Report to the financial statements, there are no other emoluments, pension and any compensation arrangements for the Directors and past Directors as is specified in Section 161 and 161A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2013, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name of Director	Total No. of Ordinary Shares	Approximate percentage of total issued ordinary share capital of the Company as at 31 December 2013
Zhao John Huan	335,076,453	18.10%
Chen Yuhong	170,993,039	9.24%
Tang Zhenming	11,827,765	0.64%
Jiang Xiaohai*	6,872,447	0.37%
Wang Hui	6,277,838	0.34%
Zeng Zhijie	300,000	0.02%

* Retired on 20 May 2013

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 1 January 2013	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2013	Percentage of total issued ordinary share capital of the Company as at 31 December 2013	No of underlying ordinary shares interested in	Note
Tang Zhenming	0.58	80,000	(80,000)	–	0.00%	4,100,000	(1)
	0.65	1,300,000	–	1,300,000	0.07%		(2)
	0.97	800,000	–	800,000	0.04%		(3)
	1.78	2,000,000	–	2,000,000	0.11%		(4)
Wang Hui	1.78	1,200,000	–	1,200,000	0.06%	1,200,000	(4)
Zeng Zhijie	1.78	450,000	–	450,000	0.02%	450,000	(4)

Notes:

(1) These share options were offered on 13 August 2003 under the share option scheme of the Company adopted on 2 June 2003 (the "Share Option Scheme") and accepted on 27 August 2003. The 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**
13/08/2004	12/08/2013	25% of the total number of share options granted
13/08/2005	12/08/2013	25% of the total number of share options granted
13/08/2006	12/08/2013	25% of the total number of share options granted
13/08/2007	12/08/2013	25% of the total number of share options granted

(2) These share options were offered on 13 May 2004 under the Share Option Scheme and accepted on 10 June 2004. 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**
13/05/2004	12/05/2014	25% of the total number of share options granted
13/05/2005	12/05/2014	25% of the total number of share options granted
13/05/2006	12/05/2014	25% of the total number of share options granted
13/05/2007	12/05/2014	25% of the total number of share options granted

(3) These share options were offered on 30 March 2006 under the Share Option Scheme and accepted on 27 April 2006. 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**
30/03/2006	29/03/2016	25% of the total number of share options granted
30/03/2007	29/03/2016	25% of the total number of share options granted
30/03/2008	29/03/2016	25% of the total number of share options granted
30/03/2009	29/03/2016	25% of the total number of share options granted

(4) These share options were offered on 10 April 2007 under the Share Option Scheme 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

Save as disclosed above and so far as was known to the Directors, as at 31 December 2013 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 for Securities Transactions, to be notified to the Company and the Stock Exchange.

As at 31 December 2013, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2013 (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 2013, 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 2013, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2013, 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 2013, 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 for Securities Transactions. 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 2013.

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 2013, share options allowing for the subscription of an aggregate of 73,355,000 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding, with terms on the exercise of such share options granted as set out in note 41 to the financial statements and notes 1 to 4 in the section headed "Directors' Interests in Shares" above.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme as at 31 December 2013.

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.

CONNECTED TRANSACTIONS

During the year, the Group had entered into continuing connected transactions as set out below.

On 30 January 2012, the Company and Huawei Technology Company Limited ("Huawei") entered into the Huawei IT Outsourcing Agreement pursuant to which the Group shall provide the IT Outsourcing services to Huawei Group on a recurring basis for the period from the contract effective date up to and including 31 December 2014. Huawei has been a customer of the Group in respect of its IT Outsourcing business since September 2009 and such recurring transactions are expected to continue upon the establishment of IT Outsourcing Flagship and the equity participation of Huawei in IT Outsourcing Flagship pursuant to Huawei Equity Participation Agreement. Since April 2012, Huawei has become a connected person of the Company by virtue of becoming a substantial shareholder of the IT Outsourcing Flagship, being a non-wholly owned subsidiary of the Company, holding 40% of its equity interest immediately upon Completion. Accordingly, any future continuing transactions between the Group and Huawei Group will constitute continuing connected transactions of the Company.

The Annual Caps for the provision of IT Outsourcing service by the Group to Huawei Group during the term of the Huawei IT Outsourcing Agreement is RMB1,488 million for the period ended 31 December 2013. During the year 2013, the provision of IT Outsourcing service by the Group to Huawei Group is RMB711.5 million.

On 10 December 2012, the Group and Hony Capital Limited ("HCL") entered into the IT Solution Agreement whereby HCL has agreed to engage the Group to provide service to HCL in respect of its informationalization platform with the goal of centralizing all the information of its investment business, enhancing the working efficiency of staff of all departments of HCL so as to meet the future investment philosophy of HCL. To facilitate the implementation of the solution and/or provision of services contemplated under the IT Solution Agreement which requires the use of certain fundamental intermediate products, on 10 December 2012, the Group and HCL entered into the Supply Agreement whereby HCL has agreed to purchase those fundamental intermediate products from a subsidiary of the Company.

HCL is a wholly-owned subsidiary of a substantial shareholder of Keen Insight. Zhao John Huan, a non-executive Director, is a director of HCL. HCL is therefore considered a connected person of the Company.

During the year, the Group provided IT solution services of RMB517,000 to Hony Capital Limited.

The independent non-executive directors confirm that the above connected transactions of the Group have been entered into under normal commercial terms and in the ordinary and usual course of business, and the terms are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors also confirm the above connected transactions also constitute related party transactions under the accounting standards, details of which are set out in note 43 to the financial statements. Related party transactions set out in note 43 to the financial statements other than those transactions disclosed above are not considered to be connected transactions.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above transactions.

Save as disclosed therein, there were no other transactions required to be disclosed as connected transactions and/or continuing 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 39.5% of the Group's total turnover and the Group's largest customer accounted for approximately 22.2% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 67.7% of the Group's total purchases and the Group's largest supplier accounted for approximately 45.6% 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 2013, 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 in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Keen Insight Limited ("Keen Insight") *(Note 1)*	Beneficial interest	335.08	18.10%	17.03%
Hony Capital Fund 2008, L.P. *(Note 1)*	Interest of controlled corporation	335.08	18.10%	17.03%
Hony Capital Fund 2008 GP L.P. *(Note 1)*	Interest of controlled corporation	335.08	18.10%	17.03%

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Hony Capital Fund 2008 GP Limited *(Note 1)*	Interest of controlled corporation	335.08	18.10%	17.03%
Hony Capital Management Limited ("Hony Capital") *(Note 1)*	Interest of controlled corporation	335.08	18.10%	17.03%
Zhao John Huan *(Note 2)*	Interest of controlled corporation	335.08	18.10%	17.03%
Right Lane Limited *(Note 2)*	Interest of controlled corporation	335.08	18.10%	17.03%
Legend Holdings Limited ("Legend Holdings") *(Note 3)*	Interest of controlled corporation	335.08	18.10%	17.03%
Chinese Academy of Sciences Holdings Co., Ltd. *(Note 4)*	Interest of controlled corporation	335.08	18.10%	17.03%
Chinese Academy of Sciences *(Note 4)*	Interest of controlled corporation	335.08	18.10%	17.03%
Beijing Lian Chi Zhi Yuan Management Consulting Center *(Note 5)*	Interest of controlled corporation	335.08	18.10%	17.03%
Beijing Lian Chi Zhi Tung Management Consulting Ltd. *(Note 5)*	Interest of controlled corporation	335.08	18.10%	17.03%
Greater Pacific Capital Partners, LP ("GPC") *(Note 6)*	Beneficial interest	119.27	6.44%	6.06%
Far East Holdings International Limited ("Far East Holdings") *(Note 7)*	Beneficial interest	113.40	6.13%	5.76%
Microsoft Corporation ("Microsoft") *(Note 8)*	Beneficial interest	97.25	5.25%	4.94%

* *The total number of issued share consists of 1,851,175,283 Ordinary Shares and 116,404,949 Convertible Notes, which could be converted into 116,404,949 Ordinary Shares.*

Notes:

1. Hony Capital Fund 2008, L.P. holds the entire issued share capital of Keen Insight. Hony Capital Fund 2008 GP, L.P. is the sole general partner of Hony Capital Fund 2008, L.P.. Hony Capital Fund 2008 GP Limited, a wholly-owned subsidiary of Hony Capital, is the sole general partner of Hony Capital Fund 2008 GP, L.P.. Hony Capital is taken to be interested in the Shares in which Keen Insight is interested.

2. Zhao John Huan and Right Lane Limited are interested in 55% and 45% interests in Hony Capital respectively.

3. Legend Holdings Limited owns 100% interest in Right Lane Limited.

4. Chinese Academy of Sciences Holdings Co., Ltd, which is 100% owned by Chinese Academy of Sciences is taken to be interested in the Shares in which Keen Insight is interested. Chinese Academy of Sciences Holdings Co., Ltd owns 36% interest in Legend Holdings.

5. Beijing Lian Zhi Tung Management Consulting Ltd is the sole general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center is taken to be interested in the Shares in which Keen Insight is interested. Beijing Lian Chi Zhi Yuan Management Consulting Center owns 35% interest in Legend Holdings.

6. GPC is interested in 119,268,639 Ordinary Shares.

7. Far East Holdings is interested in 113,398,822 Ordinary Shares.

8. Microsoft is interested in 97,250,000 Ordinary Shares which was converted on 30 December 2011 from 97,250,000 series A preferred shares of HK$0.05 each in the capital of the Company ("Series A Preferred Shares") allotted and issued on 6 January 2006.

Save as disclosed above, as at 31 December 2013, 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 of the Company 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 directors and eligible employees, details of the scheme is set out in note 41 to the consolidated financial statements.

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 2013.

Report of Directors

COMPETING INTERESTS

As at 31 December 2013, 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

Details of the subsequent event of the Group are set out in note 44 to the consolidated financial statements.

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
Chief Executive Officer

Beijing, 26 March 2014

Biographical Details of Directors and Senior Management

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 51, 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 Polytechnic University (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 (中軟網絡資訊技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources. 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 51, is the senior vice president of the Company. He is responsible for the Group's training department. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Polytechnic University (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 March 2000 and 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.

Mr. Wang Hui (王暉), aged 41, is the senior vice president and chief strategic officer of the Company and has over 10 years of practicing experience in software information industry. Mr. Wang graduated from Tianjin University (天津大學) in 1995. Prior to joining the Company on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd. (中國長城計算機軟體公司) from 1995 to 2000.

Biographical Details of Directors and Senior Management

Non-executive Director

Mr. Zhao John Huan (趙令歡), aged 51, was appointed on 29 July 2011. Mr. Zhao has many years of practicing experience in business management and investing operation. Mr. Zhao obtained a master degree in business administration from the Kellogg School of Management at Northwestern University in the United States of America ("USA") in June 1996, dual master degrees in electrical engineering and physics from Northern Illinois University in USA in 1987, and a bachelor degree in physics from Nanjing University (南京大學) in July 1984. Mr. Zhao established Hony Capital Fund 2008, L.P. in 2003 and serves as a president. Mr. Zhao also serves as a senior vice president and an executive director of the board of Legend Holdings Limited. Prior to joining Legend Holdings Limited, Mr. Zhao was a managing partner at eGarden Ventures, Ltd., chairman and chief executive officer of Infolio Inc. and Vadem Inc., a vice president and general manager at US Robotics Inc.. Prior to studying in USA, Mr. Zhao was a director of a workshop in Jiangsu Wireless Company.

Dr. Zhang Yaqin (張亞勤), aged 47, was appointed on 31 December 2008. Dr Zhang is currently the corporate vice president of Microsoft Corporation and the chairman of Microsoft Asia-Pacific Research & Development Group, responsible for driving Microsoft's overall research and development efforts in China and the Asia-Pacific region. Dr Zhang was also a member of Executive Management Committee of Microsoft (China) Limited and formulate unified strategy with other members for Microsoft in the Greater China region. Dr Zhang is a world-class scientist in the field of communication and software areas. He joined Microsoft in 1999 and served as the chief scientist of Microsoft Research Asia and was promoted to corporate vice president of Microsoft Corporation in 2004, in charge of Microsoft's Mobile and Embedded Division in Microsoft's headquarters. Dr Zhang was the core leader of Microsoft to enter into the non-PC market. In 1997, Dr. Zhang Yaqin,only aged 31 at that time, was rewarded as a Fellow of IEEE, becoming the youngest scientist receiving this honor in the 100 years of history of the association.

Mr. Lin Sheng (林盛), aged 39, was appointed on 29 July 2011. Mr. Lin obtained a master degree in economics in July 1999, and also a dual bachelor degree in engineering physics and business administration from Tsinghua University in July 1997. Mr. Lin joined Hony Capital in April 2003 and mainly responsible for the medicine, medical services and telecom, media and technology industry research and investment. Mr. Lin was a senior officer of Lenovo from April 2000 to April 2003, where he was responsible for strategic planning, market positioning, product design and business line operations.

Biographical Details of Directors and Senior Management

Independent Non-executive Director

Mr. Zeng Zhijie (曾之杰), aged 46, was appointed on 21 April 2003. Mr Zeng is the Senior Managing Director of CITIC Capital Holdings Limited and the General Manager and Managing Partner of Kaixin Investment. Mr Zeng has been active in the venture capital industry for more than fifteen years. Mr.Zeng holds his B.S. in Economics from the University of Nagasaki, Japan, and M.M. from Stanford University. Prior to joining CITIC Capital, he was a managing director of Walden International since 2001, an established global venture capital firm. Prior to Walden International, Mr Zeng worked for CITIC Pacific Ltd in Hong Kong and Mitsubishi Corporation in Tokyo, Japan. At present, Mr Zeng also serves as the chairman of China Special Article Logistics Company, as well as independent director for six listed companies: Great Wall Technology Company Limited (SEHK), ChinaSoft International (SEHK), Shanghai AJ Corporation (Shanghai Stock Exchange), E-House (NYSE), Vimicro (Nasdaq) and AutoNavi (Nasdaq). Other companies he serves as director or independent director: the State Microelectronics and the United Overseas Bank. He is also the executive director of AAMA China branch and board member of WRSACC 2005 Committee.

Dr. Leung Wing Yin Patrick (梁永賢), aged 57, 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. Song Jun (宋軍), aged 53, was appointed on 18 May 2011. Dr. Song has over 20 years of extensive experience in corporate management and operation. Dr. Song obtained a doctorate degree from Tsinghua University in 1990. He is a researcher and also currently the vice president and secretariat of Tsinghua University Education Foundation. He had held the positions of chairman and president of Tsinghua Holdings Co., Ltd. and director or chairman of over ten affiliates of Tsinghua Holdings Co., Ltd. Dr. Song is currently an independent non-executive director of China Glass Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and an independent director of Gemdale Corporation, a company listed on the Shanghai Stock Exchange.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Frank Waung, age 48, is the Chief Financial Officer of the Company. He has over 20 years experience in financial management. Mr. Waung holds a bachelor's degree in Computer Engineering from the University of California at Santa Cruz and has a master's degree in business administration from the Wharton School. Prior to joining the Company on 17 April 2012, Mr. Waung was the Chief Financial Officer for China Pharma Holdings Inc., a NYSE AMEX listed China-based manufacturer of western pharmaceuticals from 2009 through 2012. Mr. Waung has also worked as an investment banker with a focus on China for Hickey Freihofner Capital, a special situations analyst at Della Camera Capital Management, a senior market economist and convertible securities trader at SG Cowen, as well as a quantitative marketer at Credit Suisse First Boston.

Mr. Simon Chung (鍾鎮銘), aged 52, 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. He was an information technology officer and manager from 1991 to 1995 for the department of defense in Australia (Navy division). He was an IT database leader in the financial department of a government sector from 1989 to 1991.

Mr. Simon Zhang (張崇濱), aged 51, 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. Phonenix Medical Equipment Company.

COMPANY SECRETARY

Ms. Leong Leung Chai, Florence, aged 34, is currently the Financial Controller of the Company and responsible for financial reporting, company secretarial functions and assists the Chief Financial Officer on Group's accounting issues. Before joining the Company on November 2005, Ms. Leong worked in an international audit firm for several years. She holds a bachelor degree in Accountancy and has over 10 years' experience in auditing, financial reporting and listing compliance. She is a Certified Public Accountant and a member of the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE OFFICER

Dr. Chen Yuhong (陳宇紅), is the compliance officer of the Company. Please refer to the paragraph headed "Directors"in this section above for further details regarding his background.

Deloitte.
德勤

TO THE MEMBERS OF CHINASOFT INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

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 61 to 155, which comprise the consolidated statement of financial position as at 31 December 2013, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Turnover	5	3,205,985	2,768,171
Cost of sales and services		(2,200,799)	(1,852,830)
Gross profit		1,005,186	915,341
Other income, gains and losses		61,836	55,235
Selling and distribution costs		(175,369)	(160,692)
Administrative expenses		(512,223)	(454,761)
Research and development costs expensed		(52,156)	(57,055)
Allowance for doubtful debts		(24,613)	(15,807)
Amortisation of intangible assets and prepaid lease payments		(49,803)	(42,967)
Impairment loss recognised in respect of goodwill	14	–	(28,054)
Finance costs	6	(47,296)	(31,111)
Share of results of associates	15	(1,138)	2,030
Gain on disposal of associates	15	494	–
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business		–	5,557
Profit before taxation		204,918	187,716
Income tax expense	7	(4,890)	(37,574)
Profit for the year	8	200,028	150,142
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		(7,839)	(555)
– fair value gain on hedging instruments in cash flow hedge		649	–
Other comprehensive expense for the year, net of tax		(7,190)	(555)
Total comprehensive income for the year		192,838	149,587
Profit for the year attributable to:			
Owners of the Company		148,301	133,189
Non-controlling interests		51,727	16,953
		200,028	150,142
Total comprehensive income attributable to:			
Owners of the Company		141,116	132,638
Non-controlling interests		51,722	16,949
		192,838	149,587
Earnings per share	11		
Basic		RMB 0.0837	RMB 0.0799
Diluted		RMB 0.0824	RMB 0.0774

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	12	**174,186**	132,853
Intangible assets	13	**280,649**	159,330
Goodwill	14	**936,988**	629,075
Interests in associates	15	**13,519**	27,616
Available-for-sale investment	16	**25,000**	25,000
Prepaid lease payments	17	**41,482**	42,477
Deposits paid for investment in an associate	18	**14,850**	–
Derivative financial instruments	19	**649**	–
Deferred tax assets	29	**10,389**	10,515
		1,497,712	1,026,866
Current assets			
Inventories	20	**19,883**	23,989
Trade and other receivables	21	**1,146,646**	1,039,396
Prepaid lease payments	17	**1,009**	1,038
Amounts due from associates	15	**–**	10,182
Amounts due from customers for contract work	23	**1,060,869**	561,359
Amounts due from related companies	24	**814**	205
Pledged deposits	25	**5,201**	4,468
Bank balances and cash	25	**940,823**	774,847
		3,175,245	2,415,484
Current liabilities			
Amounts due to customers for contract work	23	**217,410**	110,506
Trade and other payables	26	**741,528**	668,918
Bills payable	27	**3,387**	7,071
Amounts due to related companies	24	**9,196**	9,196
Dividend payable		**73**	75
Taxation payable		**28,303**	39,312
Borrowings	28	**471,328**	309,300
Convertible loan notes	30	**–**	199,087
		1,471,225	1,343,465
Net current assets		**1,704,020**	1,072,019
Total assets less current liabilities		**3,201,732**	2,098,885

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Deferred tax liabilities	29	**17,589**	17,602
Consideration payable on acquisition of a subsidiary	36	**35,636**	–
Convertible loan notes	30	**189,038**	–
Borrowings	28	**518,268**	19,000
		760,531	36,602
		2,441,201	2,062,283
Capital and reserves			
Share capital	31	**87,085**	81,804
Share premium	32	**1,667,181**	1,466,006
Reserves	32	**513,957**	379,814
Equity attributable to owners of the Company		**2,268,223**	1,927,624
Non-controlling interests		**172,978**	134,659
Total equity		**2,441,201**	2,062,283

The consolidated financial statements on pages 61 to 155 were approved and authorised for issue by the board of directors on 26 March 2014 and are signed on its behalf by:

Dr. Chen Yuhong	**Dr. Tang Zhenming**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to the owners of the Company												
	Share capital RMB'000	Share premium RMB'000 (note 32)	Hedging reserve RMB'000	Translation reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 32)	Statutory enterprise expansion fund RMB'000 (note 32)	Statutory surplus reserve fund RMB'000 (note 32)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	77,879	1,392,651	–	(1,382)	78,222	15,167	15,793	26,749	12,153	108,440	1,725,672	78,013	1,803,685
Profit for the year	–	–	–	–	–	–	–	–	–	133,189	133,189	16,953	150,142
Other comprehensive income for the year													
– Exchange differences arising on translation of foreign operations	–	–	–	(551)	–	–	–	–	–	–	(551)	(4)	(555)
Total comprehensive income for the year	–	–	–	(551)	–	–	–	–	–	133,189	132,638	16,949	149,587
Capital contribution from a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	40,000	40,000
Issue of ordinary shares upon exercise of share options	3,931	76,738	–	–	(19,510)	–	–	–	–	–	61,159	–	61,159
Recognition of share option expenses	–	–	–	–	11,544	–	–	–	–	–	11,544	–	11,544
Cancellation of share options	–	–	–	–	(498)	–	–	–	–	498	–	–	–
Shares repurchased and cancelled	(6)	(217)	–	–	–	–	–	–	–	–	(223)	–	(223)
Dividend payable to a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,176)	(1,176)
Acquisition of additional equity interests in subsidiaries	–	(3,166)	–	–	–	–	–	–	–	–	(3,166)	873	(2,293)
Appropriations	–	–	–	–	–	–	–	–	16,919	(16,919)	–	–	–
At 31 December 2012	81,804	1,466,006	–	(1,933)	69,758	15,167	15,793	26,749	29,072	225,208	1,927,624	134,659	2,062,283
Profit for the year	–	–	–	–	–	–	–	–	–	148,301	148,301	51,727	200,028
Other comprehensive income for the year													
– Exchange differences arising on translation of foreign operations	–	–	–	(7,834)	–	–	–	–	–	–	(7,834)	(5)	(7,839)
– Fair value gain on hedging instruments in cash flow hedge	–	–	649	–	–	–	–	–	–	–	649	–	649
Total comprehensive income for the year	–	–	649	(7,834)	–	–	–	–	–	148,301	141,116	51,722	192,838
Issue of ordinary shares upon acquisition of a business	2,573	69,372	–	–	–	–	–	–	–	–	71,945	–	71,945
Issue of ordinary shares upon exercise of share options	2,511	120,397	–	–	(27,569)	–	–	–	–	–	95,339	–	95,339
Recognition of share option expenses	–	–	–	–	5,372	–	–	–	–	–	5,372	–	5,372
Cancellation of share options	–	–	–	–	(8,748)	–	–	–	–	8,748	–	–	–
Dividend payable to a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(600)	(600)
Issue of ordinary shares for acquisition of additional equity interests in subsidiaries	197	11,406	–	–	–	–	–	–	–	–	11,603	(12,803)	(1,200)
Extension of convertible loan notes	–	–	–	–	–	15,224	–	–	–	–	15,224	–	15,224
Appropriations	–	–	–	–	–	–	–	–	20,590	(20,590)	–	–	–
At 31 December 2013	87,085	1,667,181	649	(9,767)	38,813	30,391	15,793	26,749	49,662	361,667	2,268,223	172,978	2,441,201

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Operating activities			
Profit before taxation		204,918	187,716
Adjustments for:			
Depreciation of property, plant and equipment		52,562	46,577
Amortisation of intangible assets and prepaid lease payments		49,803	42,967
Finance costs		47,296	31,111
Allowance for doubtful debts		24,613	15,807
Share option expenses		5,372	11,544
Interest income		(1,958)	(3,326)
Share of results of associates		1,138	(2,030)
Loss on disposal of property, plant and equipment		1,114	137
Impairment loss recognised in respect of goodwill	14	–	28,054
Gain on disposal of associates	15	(494)	–
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business		–	(5,557)
Operating cash flows before movements in working capital		384,364	353,000
Increase in trade and other receivables		(78,908)	(294,161)
Increase in amounts due to customers for contract work		106,904	54,364
Increase in amounts due from customers for contract work		(490,881)	(197,676)
Increase in trade and other payables		36,886	55,769
Decrease in inventories		4,106	416
Decrease in bills payable		(3,684)	(14,454)
Cash used in operations		(41,213)	(42,742)
Income taxes paid		(32,371)	(40,186)
Taxation refunded		12,546	4,562
Net cash used in operating activities		(61,038)	(78,366)
Investing activities			
Acquisition of a subsidiary	36	(226,887)	–
Acquisition of a business	35	(90,000)	–
Purchases of property, plant and equipment		(80,663)	(50,145)
Development costs paid		(59,689)	(41,619)
Purchase of software		(17,356)	(3,351)
Deposit paid for investment in an associate		(14,850)	–
Placement of pledged deposits		(12,165)	(21,929)
Advance to related companies		(609)	(205)
Proceeds from disposal of associates		13,453	–
Repayments from (advances to) associates		10,182	(4,323)
Withdrawal of pledged deposits		11,432	30,032
Proceeds from disposal of property, plant and equipment		2,466	1,950
Interest received		1,958	3,326
Payments in connection with a land use right		–	(43,023)
Investments in associates		–	(35)
Net cash used in investing activities		(462,728)	(129,322)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
Financing activities			
New bank loans raised		1,059,558	284,300
Proceeds from exercise of share options		95,339	61,159
Repayment of borrowings		(413,504)	(151,200)
Interest paid		(33,523)	(17,344)
Interest paid on convertible loan notes		(8,500)	(8,500)
Acquisition of additional equity interest in subsidiaries	37	(1,200)	(2,293)
Dividend paid to non-controlling		(600)	–
Capital contribution from a non-controlling owner of a subsidiary		–	40,000
Advance from a related company		–	4,255
Payment on repurchase of shares		–	(223)
Net cash generated from financing activities		697,570	210,154
Net increase in cash and cash equivalents		173,804	2,466
Cash and cash equivalents at beginning of the year		774,847	772,950
Effect of foreign exchange rate changes		(7,828)	(569)
Cash and cash equivalents at end of the year, representing bank balances and cash		940,823	774,847

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, which is same as the functional currency of the Company.

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

Particulars of the Company's subsidiaries at 31 December 2013 and 2012 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		
			2013 %	2012 %	**2013** %	2012 %	
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
Chinasoft Resource (International) Limited ("Chinasoft Resource International")	HK	HK$100,000	**–**	–	**100**	100	Provision of IT outsourcing services
Chinasoft International Inc.	United States of America ("USA")	US$0.01	**–**	–	**100**	100	Provision of IT outsourcing services

1. GENERAL INFORMATION 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 Directly 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Principal activities
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing")	People's Republic of China (other than HK) ("PRC")	RMB200,000,000	–	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟國際（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 Computer Training Center of CS&S (Note ii)	PRC	RMB500,000	–	–	**100**	100	Provision of IT training services
北京中軟國際教育科技有限公司 Beijing Chinasoft International Education Technology Co., Ltd.	PRC	RMB5,000,000	–	–	**70**	70	Development of educational software
無錫中軟國際信息技術培訓有限公司 Wuxi Chinasoft International Information Technology Training Co., Ltd.	PRC	RMB2,000,000	–	–	**70**	70	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

1. GENERAL INFORMATION 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		
			2013	2012	**2013**	2012	
			%	%	**%**	%	
廈門中軟海晟信息技術有限公司 Xiamen Chinasoft Haisheng International Technology Limited ("CSIHS")	PRC	RMB50,000,000	**–**	–	**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 Information Technology Services Limited ("Chinasoft Resources Beijing") (Note i)	PRC	US$800,000	**–**	–	**100**	100	Provision of IT outsourcing services
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") (note 37)	PRC	RMB3,000,000	**–**	–	**100**	80	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
Hinge Global Resource Inc. ("HGR")	Cayman Islands	US$3,956,000	**97.35**	97.35	**–**	–	Investment holding
上海華騰軟件系統有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng") (Note i) (note 37)	PRC	US$8,000,000	**–**	–	**88.87**	86.43	Development and provision of IT system
大連全數科技有限公司 Dalian Digitall Technology Co., Ltd. ("Dalian Digitall") (Note i)	PRC	JPY25,000,000	**–**	–	**98.41**	98.41	Provision of IT outsourcing services

1. GENERAL INFORMATION 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 Directly 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Principal activities
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd. (Note i)	PRC	US$150,000	–	–	**97.35**	97.35	Provision of IT outsourcing services
大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd. (Note i)	PRC	US$250,000	–	–	**97.35**	97.35	Provision of IT outsourcing services
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua	Japan	JPY10,000,000	–	–	**97.35**	97.35	Provision of IT outsourcing services
DoubleBridge Technologies, Inc.	USA	US$2,204,400	–	–	**97.35**	97.35	Provision of IT outsourcing services
長沙中軟教育科技有限公司 Excellency Training Center of CSI (Changsha)	PRC	RMB1,500,000	–	–	**70**	70	Provision of IT training services
重慶卓睿信息技術有限公司 Excellency Training Center of CSI (Chongqing)	PRC	RMB1,500,000	–	–	**70**	70	Provision of IT training services
大連中軟卓越信息技術有限公司 Dalian Excellency Information & Technology Ltd.	PRC	RMB500,000	–	–	**70**	70	Provision of IT training services
大連中軟卓越計算機培訓中心 Excellency Training Center of CSI (Dalian) (Note ii)	PRC	RMB1,000,000	–	–	**70**	70	Provision of IT training services
廈門中軟卓越教育服務有限公司 Excellency Training Center of CSI (Xiamen)	PRC	RMB1,000,000	–	–	**70**	70	Provision of IT training services
天津開發區中軟卓越信息技術有限公司 Excellency Training Center of CSI (Tianjin)	PRC	RMB3,000,000	–	–	**70**	70	Provision of IT training services
北京中軟國際教育科技南京有限公司 Excellency Training Center of CSI (Nanjing)	PRC	RMB1,000,000	–	–	**70**	70	Provision of IT training services

1. GENERAL INFORMATION 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		
			2013 %	2012 %	**2013 %**	2012 %	
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	USD3,000,000	**–**	–	**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
蘇州華騰軟件系統有限公司 Suzhou Huateng Software Systems Co., Ltd	PRC	RMB2,000,000	**–**	–	**88.87**	86.43	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 Technologies Inc. ("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 mobile internet technology 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 mobile internet technology services

1. GENERAL INFORMATION 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 Directly 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Principal activities
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 mobile internet technology services
中軟國際科技服務有限公司 Chinasoft International Technology Services Limited ("CSITS") (Note v)	PRC	RMB100,000,000	–	–	60	60	Provision of IT outsourcing services
中軟國際（上海）科技服務有限公司 Chinasoft International Technology Service (Shanghai) Ltd.	PRC	RMB10,000,000	–	–	60	60	Provision of IT outsourcing services
北京中軟國際科技服務有限公司 Chinasoft International Technology Service (Beijing) Ltd.	PRC	RMB10,000,000	–	–	60	60	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	–	–	60	60	Provision of IT outsourcing services
中軟國際科技服務（大連）有限公司 Chinasoft International Technology Service (Dalian) Ltd.	PRC	RMB10,000,000	–	–	60	60	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	RMB100,000,000	–	–	100	100	Provision of IT outsourcing services
Cyber Resources Software Technology (Ireland) Limited	Ireland	EUR 100.00	–	–	100	100	Provision of IT outsourcing Services
Chinasoft International (U.K.) Limited	United Kingdom	GBP100	–	–	100	100	Provision of IT outsourcing services
Catapult Systems, LLC* ("Catapult")	USA	US$1,014,218	–	–	100	–	Provision Microsoft product and technology consultancy services
衷道投資有限公司** Chinasoft International Investment Limited	PRC	US$3,000,000	–	–	100	–	Investment Holding

1. GENERAL INFORMATION 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		
			2013 %	2012 %	2013 %	2012 %	
CSI Innovation Inc.**	USA	US$0.1	–	–	100	–	Investment Holding
重慶市沙坪區中軟軟體職業培訓學校** Chongqing Shaping District Training School of CSI	PRC	RMB300,000	–	–	100	–	Provision of IT training services
瀋陽中軟教育諮詢有限公司** Excellency Training Center of CSI (Shenyang)	PRC	RMB500,000	–	–	100	–	Provision of IT training services
南京中軟卓訓信息技術有限公司** Nanjing Excellency information & Technology Ltd.	PRC	RMB1,000,000	–	–	100	–	Provision of IT training services

* Newly acquired during the year ended 31 December 2013 (see note 36).

** Newly established during the year ended 31 December 2013.

Except for convertible loan notes issued by the Company, none of the subsidiaries had any debt securities outstanding at 31 December 2013 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 Company does not have legal ownership in equity of MMIM Technology. Nevertheless, under a series of agreements enacted among the registered owners of MMIM Technology and MMIM Interactive, the Group controls this entity by way of owning power over MMIM Technology. The agreement enable the Group to obtain variable returns from its involvement with MMIM Technology and has the ability to use its power to affect MMIM Technology's return. As a result, it is considered as subsidiary of the Company.

1. GENERAL INFORMATION OF THE COMPANY – continued

Note v: During the year ended 31 December 2012, CSI China, a wholly owned subsidiary of the Company and Huawei Technology Company Limited ("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.

The agreement also provided certain profit sharing arrangements and related variations for 2012 between the parties as determined by the extent of fulfilment of certain conditions and commitments by the Group and Huawei in 2012. Based on the assessment of the directors, such profit sharing arrangements and related variations did not result in significant impact on the consolidated financial statements for 2012. The profit sharing for the year ended 31 December 2013 is in accordance with the respective equity interest in CSITS by the Group and Huawei.

The table below shows details of non-wholly-owned subsidiaries of the Group 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		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
				RMB'000	RMB'000	**RMB'000**	RMB'000
Shanghai Huateng	PRC	**11.13%**	13.57%	**7,986**	6,403	**31,009**	27,226
CSITS	PRC	**40%**	40%	**39,616**	–	**79,616**	40,000
CSIHS	PRC	**49%**	49%	**4,525**	4,319	**41,935**	37,410
Individually immaterial subsidiaries with non-controlling interests						**20,418**	30,023
						172,978	134,659

1. GENERAL INFORMATION OF THE COMPANY – continued

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

	2013 RMB'000	2012 RMB'000
Shanghai Huateng		
Current assets	**758,826**	602,676
Non-current assets	**84,279**	81,547
Current liabilities	**(480,900)**	(464,591)
Non-current liabilities	**(83,600)**	(19,000)
Total equity	**278,605**	200,632
Revenue	**670,308**	610,008
Expenses	**(592,335)**	(562,824)
Profit and total comprehensive income for the year	**77,973**	47,184
Dividends paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(83,510)**	(22,788)
Net cash outflow from investing activities	**(10,043)**	(27,809)
Net cash inflow from financing activities	**42,034**	49,165
Net cash outflow	**(51,519)**	(1,432)

1. GENERAL INFORMATION OF THE COMPANY – continued

	2013 RMB'000	2012 RMB'000
CSITS		
Current assets	**820,132**	403,674
Non-current assets	**36,872**	9,099
Current liabilities	**(658,860)**	(313,670)
Total equity	**198,144**	99,103
Revenue	**1,154,963**	478,507
Expenses	**(1,055,923)**	(479,404)
Profit and total comprehensive income for the year	**99,040**	(897)
Dividends paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**156,961**	(91,556)
Net cash outflow from investing activities	**(37,775)**	(9,198)
Net cash inflow from financing activities	**64,398**	148,803
Net cash inflow	**183,584**	48,049

1. GENERAL INFORMATION OF THE COMPANY – continued

	2013 RMB'000	2012 RMB'000
CSIHS		
Current assets	**122,270**	111,603
Non-current assets	**8,906**	14,048
Current liabilities	**(45,594)**	(49,304)
Total equity	**85,582**	76,347
Revenue	**138,848**	114,264
Expenses	**(129,613)**	(105,449)
Profit and total comprehensive income for the year	**9,235**	8,815
Dividends paid to non-controlling interests	**–**	1,224
Net cash (outflow) inflow from operating activities	**(7,165)**	23,538
Net cash outflow from investing activities	**(77)**	(2,201)
Net cash outflow from financing activities	**(438)**	(1,396)
Net cash (outflow) inflow	**(7,680)**	19,941

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

Application of new and revised HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which have been effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 1 and 15 for details).

HKFRS 13 "Fair Value Measurement"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements; and disclosures about fair value measurements, 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 (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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

Application of new and revised HKFRSs – continued

HKFRS 13 "Fair Value Measurement" – continued

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 34 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The Group has applied the amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

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:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.

2 Effective for annual periods beginning on or after 1 July 2014.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, the amendments that are relevant to the Group are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

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

New and revised HKFRSs issued but not yet effective – continued

Annual Improvements to HKFRSs 2010-2012 Cycle – continued

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010-2012 Cycle* will have a material effect on the Group's consolidated financial statements.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

New and revised HKFRSs issued but not yet effective – continued

HKFRS 9 "Financial Instruments" – continued

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investment in unlisted equity investment that is currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

Amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

The directors of the Company anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

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.

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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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.

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 of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. 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 entity's net assets in the event of liquidation may be 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 or, when applicable, on the basis specified in another HKFRS.

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

Share issued for acquisition of business are measured at the fair values of the business received, unless that fair value cannot be reliably measured, in which case the business acquired are measured by reference to the fair value of the shares issued at the completion date. The adjustment arising from the business acquired has been made to share capital and equity (share premium).

The subsequent accounting for changes in the fair value of 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 at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or 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 less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs") (or groups of CGU) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, 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 in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates – continued

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 and outsourcing services 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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total costs for each contract, 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 costs are recognised as an expense in the period in which they are incurred. Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 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.

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.

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 it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences associated 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

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.

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.

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 activities 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 asset is measured 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 with finite useful lives are measured on the basis as intangible assets 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 are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Prepaid lease payments

Prepaid lease payments represent payments for obtaining land use rights and the right to use a trademark. Payment for the right to use a trademark is amortised on a straight-line basis over the effective period stipulated on the trademark license registration certificate. Payment for obtaining land use rights is charged to profit or loss on a straight line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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 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 individual asset, 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 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 cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) 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, amounts due from associates, amounts due from related companies, pledged deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

AFS 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 (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the 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.

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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. Changes in the carrying amount of the allowance account are recognised in profit or loss. 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.

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 Group are recognised at the proceeds received, net of direct issue costs.

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

Other financial liabilities

Other 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

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.

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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 using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Hedge accounting

The Group designates certain derivatives (primarily interest rate swap) as hedging instruments for cash flow hedge.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other income, gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

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 in its entirety, 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 expire. 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 functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on 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 re-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. Renminbi) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of 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. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in 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.

Equity-settled share-based payment transactions

Share options granted to employees and customers of the Group

In relation to share options granted after 7 November 2002 and vested before 1 January 2005, the financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Equity-settled share-based payment transactions – continued

Share options granted to employees and customers of the Group – continued

The Group has applied HKFRS 2 to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005 and share options that were granted on or after 1 January 2005. For share options granted to employees on or after 1 January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, 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 granted to customers of the Group, share options are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counter parties render services, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors 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 associated 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

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 2013, the carrying amount of trade receivables is RMB814,093,000 (2012: RMB829,809,000) which is after allowance for doubtful debts of RMB118,599,000 (2012: RMB95,114,000) (see note 21).

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. The recoverable amount determination of the CGUs as at 31 December 2013 is based on the value in use 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 2013, no impairment loss was recognised by the Group (2012: RMB28,054,000). As at 31 December 2013, the carrying amount of goodwill is RMB936,988,000 (2012: RMB629,075,000). 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 estimation made by management. The Group's management estimates the contract costs, outcome and expected cost to complete the contacts based on the budgets prepared for the contracts. Because of the nature of the activities, management reviews and revises the estimates of both contract outcome 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.

Fair value of contingent considerations arising from business combinations

The fair value of contingent considerations arising from business combinations is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance. As at 31 December 2013, the carrying amount of the contingent considerations arising from business combinations which involve fair value estimation is RMB20,466,000 (2012: nil) (see note 36).

When the actual result is different from the expected result, the actual payment will be different and the difference will be recognised in profit or loss.

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, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers for each type of goods supplied or services provided by the Group's operating divisions.

The Group had three operating divisions which represent three reportable operating segments, namely, (a) professional services business; (b) outsourcing services business and (c) training business.

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

1. Professional services business ("PSG") – development and provision of solutions for government, manufacturing entities, banks and other financial institutions, and to a lesser extent, sales of standalone software and hardware products

2. Outsourcing services business ("OSG")

3. Training business

Information regarding the above segments is reported 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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Professional services business	**1,694,727**	1,452,782	**142,294**	120,502
Outsourcing services business	**1,416,895**	1,221,800	**102,780**	113,699
Training business	**94,363**	93,589	**(2,212)**	12,813
	3,205,985	2,768,171	**242,862**	247,014

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment revenues and results – continued

Reconciliation of segment results to profit before taxation:

	2013 RMB'000	2012 RMB'000
Segment results	242,862	247,014
Other income, gains and losses unallocated	2,602	767
Interest charge on convertible loan notes	(13,773)	(13,767)
Impairment loss recognised in respect of goodwill	–	(28,054)
Corporate expenses	(21,401)	(12,257)
Share option expenses	(5,372)	(11,544)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	–	5,557
Profit before taxation	204,918	187,716

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in either year.

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

Segment results represent the profit earned by each segment without allocation of impairment loss recognised in respect of goodwill, corporate expenses, share option expenses, gain arising from changes in fair value of contingent consideration payable on acquisition of a business, 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 chief operating decision maker for the purpose of resource allocation and performance assessment.

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment assets and liabilities

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

	2013 RMB'000	2012 RMB'000
Segment assets		
Professional services business	**2,362,287**	1,668,034
Outsourcing services business	**1,144,377**	953,321
Training business	**92,355**	79,971
Segment assets	**3,599,019**	2,701,326
Goodwill	**936,988**	629,075
Others	**136,950**	111,949
Consolidated assets	**4,672,957**	3,442,350
Segment liabilities		
Professional services business	**1,152,711**	879,306
Outsourcing services business	**356,910**	259,976
Training business	**37,649**	19,023
Segment liabilities	**1,547,270**	1,158,305
Convertible loan notes	**189,038**	199,087
Bank borrowing and others	**495,448**	22,675
Consolidated liabilities	**2,231,756**	1,380,067

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to all operating segments other than goodwill, unallocated bank balances and cash, deferred tax assets and assets used jointly by the operating segments.

- all liabilities are allocated to operating segments other than convertible loan notes, deferred tax liabilities and liabilities for which operating segments are jointly liable.

5. TURNOVER AND SEGMENT INFORMATION – continued

Other information

Amounts included in the measure of segment expenses (income) and segment asset:

	PSG		OSG		Training		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Additions to non-current assets, other than deferred tax assets	115,518	67,775	145,922	64,119	7,253	5,419	268,693	137,313
Interests in associates	13,519	23,179	–	4,437	–	–	13,519	27,616
Deposit paid for investment in an associate	14,850	–	–	–	–	–	14,850	–
Depreciation of property, plant and equipment	19,614	14,313	30,904	29,376	2,044	2,888	52,562	46,577
Amortisation of intangible assets and prepaid lease payments	46,592	37,788	2,515	4,816	696	363	49,803	42,967
Allowance for doubtful debts	10,597	15,498	1,325	–	12,691	309	24,613	15,807
Interest income	(996)	(1,777)	(729)	(705)	(15)	(11)	(1,740)	(2,493)
Interest on borrowings	22,021	10,935	9,155	6,164	320	245	31,496	17,344
Share of results of associates	1,138	(2,030)	–	–	–	–	1,138	(2,030)
Loss on disposal of property, plant and equipment	174	15	940	122	–	–	1,114	137

Geographical information

The Group's operations are mainly located in its country of domicile (i.e. the PRC and HK) and to a lesser extent, USA and Japan.

The Group's revenues from external customers (based on location of the signing party of the sales/service contract) and information about its non-current assets, other than deferred tax assets, available-for-sale investment and derivative financial instruments, by geographical location are detailed below:

	Revenues from external customers		Non-current assets, other than deferred tax assets, available-for-sale investment and derivative financial instruments	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
PRC and HK	2,881,660	2,455,824	1,178,864	989,953
USA	272,620	249,101	282,637	1,130
Japan	51,705	63,246	173	268
	3,205,985	2,768,171	1,461,674	991,351

5. TURNOVER AND SEGMENT INFORMATION – continued

Geographical information – continued

Segment revenue by products and services:

	2013 RMB'000	2012 RMB'000
Sale of software and hardware products	**138,058**	216,776
Provision of services		
Professional services	**1,556,669**	1,236,006
Outsourcing services	**1,416,895**	1,221,800
Training	**94,363**	93,589
	3,067,927	2,551,395
	3,205,985	2,768,171

Information about major customers

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

	2013 RMB'000	2012 RMB'000
Customer A	**711,548**	572,517
Customer B	**N/A***	280,985

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

6. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on borrowings wholly repayable within five years	**33,523**	17,344
Effective interest on convertible loan notes	**13,773**	13,767
	47,296	31,111

7. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	**22,842**	46,157
– over-provision in prior year	**(13,971)**	(2,047)
	8,871	44,110
The US Federal and State Income taxes	**144**	6
Japan Corporate Income Tax	**–**	901
Hong Kong Profits Tax	**(51)**	168
	8,964	45,185
Deferred tax (note 29)	**(4,074)**	(7,611)
	4,890	37,574

Under the Law of the People's Republic of China on Enterprise Income Tax (the "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 exemption set out below.

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 28 October 2011, Chinasoft Beijing had been designated as a High and New Technology Enterprise ("HNTE") for a period up to 28 October 2014 and its income tax rate was reduced from 25% to 15% for the year ended 31 December 2012. In addition, Chinasoft Beijing was recognised as a Key Software Enterprise ("KSE") under the State Plan in 2013 and 2014 by National Development Reform Commission in December 2013. Accordingly, Chinasoft Beijing was entitled to a reduced income tax rate of 10% as compared to the unified tax rate of 25% for the year ended 31 December 2013.

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 28 October 2011, Chinasoft Resources Beijing had been designated as a HNTE till the end of 2014. As a result, Chinasoft Resources Beijing is subject to the income tax rate of 15% for both years.

Pursuant to certificates issued by Shanghai Municipal Science and Technology Commission dated 28 September 2010 and 19 November 2013, Chinasoft Resources Shanghai had been designated as a HNTE for a period up to 27 September 2013 and extended for another three years up to 18 November 2016, respectively. Accordingly, the income tax rate of Chinasoft Resources Shanghai was reduced from 25% to 15% for both years.

7. INCOME TAX EXPENSE – continued

Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 20 October 2011, Shanghai Huateng had been designated as a HNTE for a period up to 20 October 2014. As a result, Shanghai Huateng is subject to the income tax rate of 15% for the year ended 31 December 2012. In addition, Shanghai Huateng was recognised as a KSE under the State Plan in 2013 and 2014 by National Development Reform Commission in December 2013. Accordingly, Shanghai Huateng was entitled to the reduced income tax rate of 10% as compared to the unified tax rate of 25% for the year ended 31 December 2013.

Pursuant to a certificate issued by the Industry and Information Technology Department of Shaanxi Province dated 25 December 2012, CSITS had been designated as a software enterprise for a period up to 25 December 2017. As such, CSITS was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2012. As a result, CSITS is exempted from income tax for both years.

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

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

	2013 RMB'000	2012 RMB'000
Profit before taxation	**204,918**	187,716
Tax at PRC Enterprise Income Tax rate of 25% (2012: 25%)	**51,230**	46,929
Tax effect of share of results of associates	**285**	(508)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(55,891)**	(30,236)
Tax effect of expenses not deductible for tax purpose	**24,322**	22,580
Tax effect of income not taxable for tax purpose	**(15,433)**	(15,777)
Tax refunded as a result of tax concession or privilege granted to the company subsequently	**(13,971)**	(2,047)
Tax effect of utilisation of tax losses previously not recognised	**(1,182)**	(2,347)
Tax effect of tax losses not recognised	**15,555**	17,542
Effect of different tax rates of subsidiaries	**(25)**	1,438
Income tax expense for the year	**4,890**	37,574

8. PROFIT FOR THE YEAR

	2013 RMB'000	2012 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 9)	3,511	4,470
Other staff costs	1,895,163	1,546,251
Retirement benefits costs (excluding those for directors)	166,535	158,276
Share option expenses	5,372	11,544
Total staff costs	2,070,581	1,720,541
Less: Staff costs capitalised as development costs	(59,442)	(22,494)
	2,011,139	1,698,047
Research and development costs expensed	62,984	64,609
Less: Government grants	(10,828)	(7,554)
	52,156	57,055
Depreciation of property, plant and equipment	52,562	46,577
Amortisation of intangible assets	49,650	42,812
Amortisation of prepaid lease payments	1,013	155
	103,225	89,544
Less: Amortisation of prepaid lease payments capitalised in construction in progress	(860)	–
	102,365	89,544
Auditor's remuneration	5,580	4,300
Cost of inventories recognised as an expense	112,956	176,668
Loss on disposal of property, plant and equipment	1,114	137
Minimum lease payments in respect of buildings	127,888	91,495
Net foreign exchange loss	1,860	72
And after crediting:		
Interest income from pledged deposits and bank balances	1,958	3,326
Government grants	56,910	48,524
Tax incentive subsidies	2,955	4,562

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors and the chief executive for the year ended 31 December 2013 are as follows:

	Chief executive and executive director	Executive director			Non-executive director				Independent non-executive director				
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Jiang Xiaohai RMB'000 (Note a)	John Zhao RMB'000	Zhang Yaqin RMB'000	Lin Sheng RMB'000	Shen Lipu RMB'000 (Note a)	Zeng Zhijie RMB'000	Leung WingYin Patrick RMB'000	Song Jun RMB'000	Xu Zeshan RMB'000 (Note a)	Total RMB'000
Fees	–	–	–	–	–	–	–	–	96	–	–	–	96
Other emoluments:													
Salaries and other benefits	1,786	612	815	–	–	–	–	–	–	–	96	–	3,309
Retirement benefits costs	36	34	36	–	–	–	–	–	–	–	–	–	106
Total directors' remuneration	1,822	646	851	–	–	–	–	–	96	–	96	–	3,511

Details of emoluments to the directors and the chief executive for the year ended 31 December 2012 are as follows:

	Chief executive and executive director	Executive director			Non-executive director				Independent non-executive director				
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Jiang Xiaohai RMB'000	John Zhao RMB'000	Zhang Yaqin RMB'000	Lin Sheng RMB'000	Shen Lipu RMB'000	Zeng Zhijie RMB'000	Leung WingYin Patrick RMB'000	Song Jun RMB'000 (Note b)	Xu Zeshan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	98	89	–	–	187
Other emoluments:													
Salaries and other benefits	2,168	641	1,322	–	–	–	–	–	–	–	53	–	4,184
Retirement benefits costs	33	33	33	–	–	–	–	–	–	–	–	–	99
Total directors' remuneration	2,201	674	1,355	–	–	–	–	–	98	89	53	–	4,470

Note a: Retired during 2013.

Note b: Re-designed from non-executive director during 2012.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2012: two) was director of the Company whose emoluments were included above. The emoluments of the remaining four (2012: three) highest paid individuals were as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	4,104	2,280
Share option expenses	84	1,662
Retirement benefits costs	120	78
	4,308	4,020

Their emoluments were within the following bands:

	No. of employees	
	2013	2012
HK$1,000,001 to HK$1,500,000 (equivalent to RMB797,900 to RMB1,196,850; 2012: equivalent to RMB813,601 to RMB1,220,400)	3	–
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,196,851 to RMB1,595,800; 2012: equivalent to RMB1,220,401 to RMB1,627,200)	1	3
	4	3

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

No dividend was paid or proposed during 2012 and 2013, nor has any dividend been proposed since the end of the reporting period.

11. EARNINGS PER SHARE

	2013 RMB'000	2012 RMB'000
Earnings		
Earnings for the purpose of basic and dilutive earnings per share (Profit for the year attributable to owners of the Company)	**148,301**	133,189

Number of shares

	2013 '000	2012 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,771,895**	1,667,556
Effect of dilutive potential ordinary shares:		
Share options	**27,116**	53,812
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,799,011**	1,721,368

The computation of diluted earnings per share for the both years did not assume the conversion of the Company's outstanding convertible loan notes because the assumed conversion would result in an increase in earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 2012	65,342	171,770	17,871	2,982	257,965
Exchange adjustments	(5)	(79)	–	–	(84)
Additions	14,368	35,174	509	94	50,145
Disposals	–	(3,456)	(50)	–	(3,506)
Transfers	351	2,725	–	(3,076)	–
At 31 December 2012	80,056	206,134	18,330	–	304,520
Exchange adjustments	(12)	(534)	(2)	–	(548)
Additions	31,745	20,364	179	40,885	93,173
Acquisition of a subsidiary (note 36)	214	4,337	–	–	4,551
Disposals	(6,176)	(11,836)	(2,765)	–	(20,777)
At 31 December 2013	**105,827**	**218,465**	**15,742**	**40,885**	**380,919**
DEPRECIATION					
At 1 January 2012	31,575	86,768	8,166	–	126,509
Provided for the year	15,116	29,559	1,902	–	46,577
Eliminated on disposals	–	(1,409)	(10)	–	(1,419)
At 31 December 2012	46,691	114,918	10,058	–	171,667
Exchange adjustments	(9)	(290)	–	–	(299)
Provided for the year	16,881	34,236	1,445	–	52,562
Eliminated on disposals	(6,176)	(9,913)	(1,108)	–	(17,197)
At 31 December 2013	**57,387**	**138,951**	**10,395**	**–**	**206,733**
CARRYING VALUES					
At 31 December 2013	**48,440**	**79,514**	**5,347**	**40,885**	**174,186**
At 31 December 2012	33,365	91,216	8,272	–	132,853

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the relevant lease terms or 19%-33 1/3%, whichever is the lower
Furniture, fixtures and equipment	9%-33 1/3%
Motor vehicles	9%-20%

13. INTANGIBLE ASSETS

	Development costs	Technical knowhow	Software	Contract-based customer-related intangibles	Technical expertise	Customer relationship	Patent	Trade name	Technology	Non-compete agreements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2012	85,838	17,367	13,881	19,704	12,494	136,764	13,764	968	6,643	1,019	308,442
Additions	41,619	–	3,351	–	–	–	–	–	–	–	44,970
At 31 December 2012	127,457	17,367	17,232	19,704	12,494	136,764	13,764	968	6,643	1,019	353,412
Additions	59,689	–	17,356	–	–	–	–	–	–	–	77,045
Acquisitions of a business (note 35)	–	–	–	–	–	30,745	–	–	16,701	–	47,446
Acquisitions of a subsidiary (note 36)	–	–	3,094	–	–	35,554	–	37	–	7,793	46,478
At 31 December 2013	**187,146**	**17,367**	**37,682**	**19,704**	**12,494**	**203,063**	**13,764**	**1,005**	**23,344**	**8,812**	**524,381**
AMORTISATION/IMPAIRMENT											
At 1 January 2012	42,735	10,853	4,629	19,704	12,305	52,900	2,131	727	4,651	635	151,270
Provided for the year	6,860	2,801	3,962	–	189	25,905	1,305	184	1,329	277	42,812
At 31 December 2012	49,595	13,654	8,591	19,704	12,494	78,805	3,436	911	5,980	912	194,082
Provided for the year	15,818	1,774	3,060	–	–	25,082	1,305	49	2,334	228	49,650
At 31 December 2013	**65,413**	**15,428**	**11,651**	**19,704**	**12,494**	**103,887**	**4,741**	**960**	**8,314**	**1,140**	**243,732**
CARRYING VALUES											
At 31 December 2013	**121,733**	**1,939**	**26,031**	**–**	**–**	**99,176**	**9,023**	**45**	**15,030**	**7,672**	**280,649**
At 31 December 2012	77,862	3,713	8,641	–	–	57,959	10,328	57	663	107	159,330

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

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	5-6 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 2012 and 31 December 2012	825,153
Acquisition of a business (note 35)	120,905
Acquisition of a subsidiary (note 36)	187,008
At 31 December 2013	**1,133,066**
IMPAIRMENT	
At 1 January 2012	168,024
Impairment loss recognised for the year	28,054
At 31 December 2012 and 31 December 2013	**196,078**
CARRYING VALUES	
At 31 December 2013	**936,988**
At 31 December 2012	629,075

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 2013 and 2012 has been allocated to the following individual CGUs under the three segments:

	2013 RMB'000	2012 RMB'000
Professional services business segment		
– Chinasoft Beijing (Note i)	**176,154**	55,249
– Han Consulting	**11,250**	11,250
– MMIM (Note ii)	**206,210**	206,210
– HGR and its subsidiaries	**134,188**	134,188
	527,802	406,897
Outsourcing services business segment		
– CSITS and existing outsourcing entities	**221,348**	221,348
– Catapult (Note iii)	**187,008**	–
	408,356	221,348
Training business segment	**830**	830
	936,988	629,075

The basis of the recoverable amounts of the above CGUs and the methodology used for the year are summarised below:

Except as noted below, the recoverable amounts of the following CGUs or group 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 or group 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 of the Group 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 or group of CGUs and management's expectations.

14. GOODWILL – continued

Impairment testing on goodwill – continued

CGUs	Discount rate		Growth rate	
	2013	2012	**2013**	2012
Professional services business segment				
– Chinasoft Beijing	**13%**	14%	**3%**	3%
– Han Consulting	**16%**	16%	**3%**	3%
– MMIM	**17%**	17%	**3%**	3%
– HGR and its subsidiaries	**13%**	14%	**3%**	3%
Outsourcing services business segment				
– CSITS and existing outsourcing entities	**13%**	14%	**3%**	3%
– Catapult	**15%**	N/A	**3%**	N/A
Training segment	**13%**	13%	**3%**	3%

Notes:

i. The Group acquired the IT software outsourcing service and IT software solution business of State Grid Corporation of China electric power field operated by Beijing Along Grid Technology Co. Ltd. ("Along Grid") and the related employees and assets during 2013. Details of the acquisition were set out in note 35. The business and related employees and assets were blent into Chinasoft Beijing under the professional services business segment.

ii. No impairment loss was recognised by the Group in 2013 (2012: RMB28,054,000) in relation to the goodwill arising on acquisition of MMIM under the professional services business segment.

iii. The Group acquired Catapult during 2013. Details of the acquisition were set out in note 36.

15. INTERESTS IN ASSOCIATES

	2013	2012
	RMB'000	RMB'000
Unlisted cost of investments in associates	**4,245**	9,495
Share of post-acquisition profits net of dividend received	**9,274**	18,121
	13,519	27,616

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2012: RMB3,052,000) arising on acquisition of China National Tobacco Information Company Limited in 2005.

Amounts due from associates were unsecured, interest free and repayable within one year.

15. INTERESTS IN ASSOCIATES – continued

Particulars of the Group's associates at 31 December 2013 and 2012 are as follows:

Name of associate	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group 2013	2012	Nature of business
北京中煙資訊技術有限公司 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
北京雲博中軟國際科技有限公司 Beijing Yunbo Chinasoft International Techonology Limited ("Beijing Yunbo")	Equity joint venture enterprise	PRC	PRC	**35%**	35%	Provision of solutions and IT consulting services
武漢中軟國際資訊技術有限公司 Wuhan Chinasoft International Information Technology Limited (Note i)	Equity joint venture enterprise	PRC	PRC	**–**	46%	Provision of solutions and IT consulting services
上海華騰數據信息科技有限公司 Shanghai Huateng Data Service Co., Ltd. ("Huateng Data") (Note ii)	Equity joint venture enterprise	PRC	PRC	**–**	20%	Operation of data centre
上海華騰智能系統有限公司 Shanghai Huateng Intelligent System Co., Ltd. ("Huateng Intelligent") (Note ii)	Equity joint venture enterprise	PRC	PRC	**–**	20%	Design of intelligent terminal hardware

Notes:

i The associate has been dissolved during 2013.

ii During the current year, the Group disposed of the equity interest in Huateng Data and Huateng Intelligent with an aggregate carrying amount of RMB12,959,000, which had been measured using the equity method of accounting. A gain on disposal of RMB494,000 has been recognised in profit or loss for the current year.

All of these associates are accounted for using the equity method in these consolidated financial statements.

15. INTERESTS IN ASSOCIATES – continued – continued

The Groups' associates individually are not material. The summarised financial information in respect of the associates is set out below:

	2013 RMB'000	2012 RMB'000
Total assets	**71,679**	144,603
Total liabilities	**(19,555)**	(54,694)
Net assets	**52,124**	89,909
Group's share of net assets of associates	**10,467**	24,564
Total revenue	**126,750**	132,622
Total (loss) profit for the year	**(2,098)**	11,159
Group's share of (losses) profits of associates for the year	**(1,138)**	2,030
The Group's share of other comprehensive income	**(1,138)**	2,030
The Group's share of total comprehensive income	**(1,138)**	2,030

16. AVAILABLE-FOR-SALE INVESTMENT

	2013 RMB'000	2012 RMB'000
Unlisted equity investment	**25,000**	25,000

On 17 January 2011, the Group entered into a trust agreement (the "Agreement") with Easy Win Technology Limited ("Easy Win"), an equity owner of Huateng Data and Huateng Intelligent, former associates of the Group. Under the Agreement, Easy Win agreed to acquire and hold on behalf of the Group a 19.8% unlisted equity investment in Fu Fei Tong Information Service Company Limited ("Fu Fei Tong"), an entity established in the PRC and engaged in the provision of digital payment services in the PRC, at a consideration of RMB25,000,000. Pursuant to the Agreement, the Group is entitled to the relevant investment return but is not entitled to other owners' rights on the investment (including voting rights in shareholders' meeting and directors' meeting). The owners' rights, including voting rights in shareholders' and directors' meeting are to be exercised by Easy Win. The directors consider that the Group cannot exercise significant influence on Fu Fei Tong.

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

17. PREPAID LEASE PAYMENTS

	Land use right	Trademark usage right	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2012	–	1,651	1,651
Addition	43,023	–	43,023
At 31 December 2012	43,023	1,651	44,674
Exchange adjustments	–	(46)	(46)
At 31 December 2013	43,023	1,605	44,628
AMORTISATION			
At 1 January 2012	–	1,004	1,004
Provided for the year	–	155	155
At 31 December 2012	–	1,159	1,159
Provided for the year	860	153	1,013
Exchange adjustments	–	(35)	(35)
At 31 December 2013	860	1,277	2,137
CARRYING VALUE			
At 31 December 2013	42,163	328	42,491
At 31 December 2012	43,023	492	43,515

	2013			2012		
	Land use right	Trademark usage right	Total	Land use right	Trademark usage right	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:						
Non-current assets	41,303	179	41,482	42,163	314	42,477
Current assets	860	149	1,009	860	178	1,038
	42,163	328	42,491	43,023	492	43,515

17. PREPAID LEASE PAYMENTS – continued

The Group's prepaid lease payments comprise payments for a trademark usage right of RMB328,000 (2012: RMB492,000) and payments associated with a land use right of RMB42,163,000 (2012: RMB43,023,000) in the PRC under medium-term lease.

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

During 2012, the Group entered into an agreement with the relevant government authority to acquire a land use right with a lease term of 50 years. The consideration under the agreement and other directly attributable costs amounted to RMB43,023,000. The land use right is amortised on a straight-line basis over a lease term of 50 years.

18. DEPOSIT PAID FOR INVESTMENT IN AN ASSOCIATE

In December 2013, Chinasoft Beijing entered into an agreement with Shandong Zhaojin Group Co., Ltd. ("Zhaojin"). Pursuant to the agreement, Chinasoft Beijing will invest RMB14,850,000 in Shandong Jinruan Technology Limited ("Shandong Jinruan"), a subsidiary of Zhaojin which is mainly engaged in software development business. The investment will entitle Chinasoft Beijing 30% equity interest in Shandong Jinruan. The amount was paid in December 2013 and a deposit for the investment is recognised.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives under hedge accounting

	2013	2012
	RMB'000	RMB'000
Cash flow hedges – Interest rate swaps, non-current	**649**	–

Cash flow hedges

During the year ended 31 December 2013, the Group uses interest rate swaps (net quarterly settlement) to minimise its exposure to interest expenses of certain of its floating-rate US Dollar bank borrowings by swapping floating interest rates to fixed interest rates. The interest rate swaps and the corresponding bank borrowings have the similar terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps at 31 December 2013 are set out below:

National amount	**Inception date**	**Maturity date**	**Swaps**
US$50,000,000	8 November 2013	8 November 2016	From 3-month LIBOR + 2.95% to 3.65%
US$25,000,000	6 December 2013	8 November 2016	From 3-month LIBOR + 2.95% to 3.65%

19. DERIVATIVE FINANCIAL INSTRUMENTS – continued

Cash flow hedges – continued

As at 31 December 2013, the gross fair value gain during the year from the interest rate swaps under cash flow hedge amounted to RMB649,000 (equivalent to US$104,888) (2012: nil) has been deferred in equity and are expected to be released to the profit or loss when the hedged interest expense is charged to profit or loss quarterly.

The classification of the measure of the derivative financial instruments at 31 December 2013 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

20. INVENTORIES

	2013 RMB'000	2012 RMB'000
Computer hardware, equipment and software products	**19,883**	23,989

21. TRADE AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**592,872**	589,501
Less: Allowance for doubtful debts	**(118,599)**	(95,114)
	474,273	494,387
Trade receivables from related companies (Note)	**339,820**	335,422
	814,093	829,809
Advances to suppliers	**157,334**	91,114
Deposits, prepayments and other receivables	**175,219**	118,473
	1,146,646	1,039,396

Note: The balances principally arose from provision of services by the Group to certain related companies (see note 43). The balances included an amount of RMB335,292,000 (2012: RMB334,791,000) due from the group of Huawei and its subsidiaries ("Huawei Group") which became a related party following the establishment of CSITS in April 2012.

21. TRADE AND OTHER RECEIVABLES – continued

The credit terms of the Group range from 30 to 180 days. An aged analysis of trade receivables (net of allowance for doubtful debts), presented based on the invoice date at the end of the reporting period is as follows:

	2013 RMB'000	2012 RMB'000
Within 90 days	505,616	601,133
Between 91 – 180 days	164,053	116,221
Between 181 – 365 days	74,929	54,822
Between 1 – 2 years	69,196	56,828
Over 2 years	299	805
	814,093	829,809

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. 56% (2012: 67%) 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 RMB293,314,000 (2012: RMB210,169,000) 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 subsequent settlement and the credit quality of these customers had not been deteriorated. 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

	2013 RMB'000	2012 RMB'000
Within 90 days	8,638	2,038
Between 91 – 180 days	142,154	95,676
Between 181 – 365 days	73,027	54,822
Between 1 – 2 years	69,196	56,828
Over 2 years	299	805
Total	293,314	210,169

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.

21. TRADE AND OTHER RECEIVABLES – continued

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
Balance at beginning of the year	**95,114**	79,307
Impairment losses recognised on receivables	**35,506**	15,807
Amounts recovered during the year	**(10,893)**	–
Amounts written-off as uncollectible	**(1,000)**	–
Exchange adjustments	**(128)**	–
Balance at end of the year	**118,599**	95,114

22. TRANSFER OF FINANCIAL ASSETS

The following are the Group's trade receivables as at 31 December 2013 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 28). These receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2013 RMB'000	2012 RMB'000
Carrying amount of trade receivables	**14,380**	–
Carrying amount of associated liabilities	**14,380**	–
Net position	**–**	–

In addition to the above, as at 31 December 2013, trade receivables amounting to RMB100,000,000 (2012: nil) had been factored to an independent third party without recourse. The Group has derecognised these trade receivables in their entirely 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 party. Losses related to derecognition of the trade receivables was RMB2,500,000 (2012: nil) which was charged to the profit or loss.

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

	2013 RMB'000	2012 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**2,529,705**	1,840,047
Less: Progress billings	**(1,686,246)**	(1,389,194)
	843,459	450,853
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	**1,060,869**	561,359
Amounts due to contract customers for contract work	**(217,410)**	(110,506)
	843,459	450,853

At 31 December 2013, retentions held by customers for contract work amounted to RMB8,488,000 (2012: RMB7,378,000). There are no advances received from customers for contract work at the end of 2013 and 2012.

24. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2012 and 2013, the amount due from a related company represents an advance to a non-controlling owner of a subsidiary. 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 5.39% (2012: 5.39%) per annum and repayable on demand.

25. 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 0.63% (2012: 0.42%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts comprise short-term bank deposits carried at the prevailing market interest rates which range from 1.49% to 2.85% (2012: from 2.82% to 3.25%) per annum as at 31 December 2013. At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2013	2012
	RMB'000	RMB'000
Hong Kong Dollar	**1,978**	56,567
United States Dollar	**163,814**	241
Japanese Yen	**13,579**	3,158

26. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	RMB'000
Trade payables	**377,471**	342,149
Trade payables to related companies (Note)	**–**	2,996
	377,471	345,145
Deposits received from customers	**65,571**	50,960
Other payables and accrued charges	**298,486**	272,813
	741,528	668,918

26. TRADE AND OTHER PAYABLES – continued

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

	2013 RMB'000	2012 RMB'000
Within 90 days	182,056	143,443
Between 91 – 180 days	36,900	36,729
Between 181 – 365 days	106,461	49,998
Between 1 – 2 years	34,282	89,102
Over 2 years	17,772	25,873
	377,471	345,145

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that sufficient working capital is maintained to meet its obligations when they fall due.

Note: The balance in 2012 arose from provision of service by Huateng Intelligent to the Group (see note 43). Huateng Intelligent is a former associate and has been disposed of by the Group during 2013.

27. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2013 RMB'000	2012 RMB'000
Within 90 days	3,387	7,071

28. BORROWINGS

	2013 RMB'000	2012 RMB'000
Unsecured bank loans (Note (i))	975,216	328,300
Secured bank loans (Note (ii))	14,380	–
	989,596	328,300

28. BORROWINGS – continued

	2013 RMB'000	2012 RMB'000
Carrying amount repayable:		
Within one year	**471,328**	309,300
More than one year, but not exceeding two years	**198,180**	19,000
More than two years, but not exceeding five years	**320,088**	–
	989,596	328,300
Less: Amounts due within one year shown under current liabilities	**(471,328)**	(309,300)
Amounts shown under non-current liabilities	**518,268**	19,000

	2013 RMB'000	2012 RMB'000
Total borrowings		
At fixed interest rates	**264,479**	84,000
At floating interest rates (Note (iii))	**725,117**	244,300
	989,596	328,300

	2013 RMB'000	2012 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	**529,280**	328,300
Denominated in USD	**460,316**	–

Notes:

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

(ii) Trade receivables with a net carrying value of approximately RMB14,380,000 (2012: nil) are pledged to secure certain bank loans granted to the Group.

(iii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 6.30% (2012: 6.46%) per annum. Interest on USD borrowings are charged at LIBOR plus 2.95% (2012: N/A).

28. BORROWINGS – continued

At 31 December 2013, the cash flow interest rate risk of the Group's borrowings of RMB457,268,000 (2012: nil) was hedged using interest rate swaps (floating to fixed interest swaps) (see note 19 for details).

Borrowings comprise:

	Maturity date	Significant covenant	Effective interest rate	Carrying amount 2013 RMB'000	Carrying amount 2012 RMB'000
Floating-rate borrowings: Unsecured USD bank loans of RMB457,268,000 at LIBOR+2.95% (Note)	8 November 2016	The Company need to comply with certain financial ratios as per required by the facility	3.19%	**457,268**	–

Note: RMB 137,180,000 and RMB 320,088,000 are repayable in 2015 and 2016, respectively.

29. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised by the Group and movement thereon during the current and prior year:

	Deferred development costs RMB'000	Customer relationship RMB'000	Patent RMB'000	Technology RMB'000	Deferred revenue RMB'000	Tax losses RMB'000	Property, plant and equipment RMB'000	Accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012	(829)	(20,239)	(2,907)	(498)	–	–	804	9,265	(294)	(14,698)
Credit to profit or loss	379	5,862	326	332	–	–	–	446	266	7,611
At 31 December 2012	(450)	(14,377)	(2,581)	(166)	–	–	804	9,711	(28)	(7,087)
Acquisitions of a business (note 35)	–	(4,151)	–	(2,255)	–	–	–	–	–	(6,406)
Acquisitions of a subsidiary (note 36)	–	–	–	–	1,959	260	–	–	–	2,219
Credit to profit or loss	450	5,290	326	333	(350)	952	–	(3,487)	560	4,074
At 31 December 2013	**-**	**(13,238)**	**(2,255)**	**(2,088)**	**1,609**	**1,212**	**804**	**6,224**	**532**	**(7,200)**

29. DEFERRED TAXATION – continued

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

	2013 RMB'000	2012 RMB'000
Deferred tax assets	**10,389**	10,515
Deferred tax liabilities	**(17,589)**	(17,602)
	(7,200)	(7,087)

At the end of the reporting period, the Group had unused tax losses available for offset against future profits of approximately RMB217,041,000 (2012: RMB158,911,000) which may be carried forward indefinitely except for losses of approximately RMB151,473,000 (2012: RMB88,743,000) which will expire from 2014 to 2018 (2014: RMB27,288,000, 2015: RMB5,826,000, 2016: RMB16,476,000, 2017: RMB35,885,000, 2018: RMB65,998,000). A deferred tax asset has been recognised in respect of RMB3,350,000 (2012: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB213,691,000 (2012: RMB158,911,000) tax losses due to the unpredictability of future profit streams.

Under the new EIT Law of PRC, 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 2013 amounting to RMB664,639,000 (2012: RMB512,620,000) 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.

30. CONVERTIBLE LOAN NOTES

On 30 November 2010, the Company announced the completion of issue of 4.25% convertible loan notes in the principal amount of RMB200 million took place on 29 November 2010.

The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after 29 November 2010 up to 29 November 2013 (the "Maturity Date") at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue, capital distribution and certain other dilutive events) of HK$2 per share, translated to RMB1.718 per share at fixed exchange rate. Interest of 4.25% per annum will be paid semi-annually with the first interest payment date fell on 15 January 2011. The convertible loan notes will be redeemed by the Company at the Maturity Date at the principal amount outstanding together with accrued interest thereon up to and including 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 holder may terminate and request immediate redemption of the convertible loan notes at their principal amount then outstanding together with accrued interest upon occurrence of certain events of defaults. Details of the issue of convertible loan notes were set out in a circular dated 1 November 2010 issued by the Company.

On 23 October 2013, the Company and the loan notes holders entered into a letter agreement pursuant to which the company and the loan notes holders agreed to extend the maturity date of convertible loan notes for a further term of three years from 29 November 2013 to 29 November 2016. The conversion period of the loan notes is accordingly be extended for three years to 29 November 2016. Save for the extension of the maturity date and conversion period, all other existing terms and conditions of the convertible notes remain unchanged and in full force and effect after the extension. Details of the extension of convertible loan notes were set out in an announcement dated 23 October 2013.

None of the conversion rights attached to the convertible loan notes has been exercised by the holders or any portion of the principal amount of the convertible loan notes has been redeemed by the holders. As such, the aggregate outstanding principal amount of the convertible loan notes remained at RMB200 million.

31. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2012, 31 December 2012 and 2013	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 2012	1,622,228,659	81,111,433	77,879
Exercise of share options	96,276,000	4,813,800	3,931
Share repurchased and cancelled	(140,000)	(7,000)	(6)
At 31 December 2012	1,718,364,659	85,918,233	81,804
Exercise of share options	63,296,350	3,164,818	2,511
Issued in consideration for the acquisition of a business (Note 1)	64,588,274	3,229,414	2,573
Issued in consideration for the acquisition of additional equity interest of a subsidiary (Note 2)	4,926,000	246,300	197
At 31 December 2013	**1,851,175,283**	**92,558,765**	**87,085**

Notes:

1. During the current year, pursuant to the sales and purchase agreement entered on 27 December 2012, the Company issued 64,588,274 new ordinary shares of the Company as the partial consideration for the acquisition of IT software outsourcing service and IT software solution business operated by Along Grid and the related employees and assets (see note 35).

2. During the current year, pursuant to the sales and purchase agreement entered on 14 December 2012, the Company issued 4,926,000 new ordinary shares of the Company as the consideration for the acquisition of 2.44% additional equity interest in Shanghai Huateng, an existing non-wholly owned subsidiary of the Company (see note 37).

All the shares which were issued by the Company during the year rank pari passu with existing shares in all respects.

32. 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.

No dividend has been paid and distributed in years 2012 and 2013.

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.

33. 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 28, convertible loan notes disclosed in note 30, 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 review the capital structure semi-annually. As part of this review, the directors consider the cost of capital and the risks associates 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 share issues and as well as the issue of new debt or the redemption of existing debt.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,836,513**	1,634,428
Available-for-sale financial assets	**25,000**	25,000
Derivative instruments designated as hedging instruments	**649**	–
Financial liabilities		
Amortised cost	**1,627,935**	892,747

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates, amounts due from/to related parties, pledged deposits, bank balances and cash, derivative financial instruments in designated hedge accounting relationships, trade and other payables, dividend payable, borrowings, bills payable, contingent consideration 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.

34. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash and trade receivables denominated in foreign currencies arising from income generated from provision of services and trade payables arising from purchases dominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 2.2% (2012: 3.7%) 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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar	**6,381**	95,851	**729**	1,119
United States Dollar	**261,982**	24,110	**498,280**	58,541
Japanese Yen	**22,629**	17,499	**8,235**	8,076
Others	**179**	307	**106**	65

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, Unite 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.

34. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis – continued

	Hong Kong Dollar Impact		United States Dollar Impact		Japanese Yen Impact	
	2013	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit for the year	**(212)**	(3,552) (a)	**8,861**	1,291 (b)	**(540)**	(353) (c)

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

(b) This is mainly attributable to the exposure on United States Dollar trade receivables, bank balances, trade payables and borrowings at the end of the reporting period.

(c) This is mainly attributable to the exposure on Japanese Yen trade receivables, bank balances, and trade payables at the end of the reporting period.

(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 2013, except for an amount of RMB725,117,000 (2012: RMB244,300,000) 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 30 for details), borrowings with fixed interest rates (see note 28) and amount due to related companies (see note 24). The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings (see note 28) and short-term bank deposits (see note 25) which are mainly concentrated on the fluctuation of prevailing interest rate announced by the Peoples' Bank of China and London Inter Bank Offered Rate in respect of an unsecured bank loan. In order to minimise the cash flow interest rate risk, the Group uses floating to fixed interest rate swaps to hedge the cash flow interest rate risk exposure associated with certain borrowings at floating interest rates amounting to RMB457,268,000 (2012: nil) (see note 19 for details) during the year ended 31 December 2013.

34. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk – continued

Sensitivity analysis

Excluding the interest rate swap and related hedged borrowing mentioned above, the sensitivity analyses below have been determined based on the exposure to interest rates for remaining floating rate borrowings (see note 28). A 50 basis points (2012: 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 (2012: 50 basis points) higher and all other variable were held constant, the Group's post-tax profit for the year ended 31 December 2013 would decrease/increase by RMB1,004,000 (2012: RMB916,000). This is attributable to the Group's exposure to interest rate on floating rate borrowings.

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 2013 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.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 88.7% (2012: 91.9%) of the total trade receivables as at 31 December 2013. The Group has concentration of credit risk as 29.0% (2012: 40.0%) and 42.1% (2012: 62.2%) 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.

34. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As at 31 December 2013, the Group has available unutilised general borrowing facilities of approximately RMB289,471,000 (2012: RMB137,029,000).

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.

Liquidity tables

	Weighted average interest rate	On demand or less than 6 months	Over 6 months but not more than 1 year	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at 31 December 2013
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2013							
Trade and other payables		401,009	–	–	–	401,009	401,009
Bills payable		3,387	–	–	–	3,387	3,387
Amounts due to related companies	5.39	9,692	–	–	–	9,692	9,196
Dividend payable		73	–	–	–	73	73
Borrowings	6.30	408,501	113,286	230,831	340,253	1,092,871	989,596
Convertible loan notes	7.24	4,285	4,215	8,500	211,714	228,714	189,038
Consideration payable on acquisition of a subsidiary (Note)		–	–	–	50,619	50,619	35,636
		826,947	117,501	239,331	602,586	1,786,365	1,627,935

34. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Weighted average interest rate %	On demand or less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2012 RMB'000
2012						
Trade and other payables		349,018	–	–	349,018	349,018
Bills payable		7,071	–	–	7,071	7,071
Amounts due to related companies	5.39	9,412	–	–	9,412	9,196
Dividend payable		75	–	–	75	75
Borrowings	6.46	209,300	114,785	20,227	344,312	328,300
Convertible loan notes	7.24	4,285	207,405	–	211,690	199,087
		579,161	322,190	20,227	921,578	892,747

The amounts included above for variable interest rate borrowings are subject to change if change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Note: The amounts included above for contingent consideration arising from business combination are the maximum amounts of cash the Group could be required to settle under the arrangement if certain milestones are achieved by the acquirees. Based on expectations at the end of the reporting period, the directors have assessed the fair value of the contingent consideration which will be payable under the arrangement. However, this estimate is subject to change depending on the actual financial performance of the acquirees.

34. FINANCIAL INSTRUMENTS – continued

Fair value

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial instruments – interest rate swaps	Assets – RMB649,000 (designated as hedging instrument)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Financial liabilities	Fair value as at	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Contingent consideration in a business combination included in consideration payable on acquisition of a subsidiary	Liabilities – RMB20,466,000	Level 3 (Note 1)	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate.	Discount rate of 6.4% (Note 2) Probability-adjusted profits, with a range from RMB33,277,000 to RMB89,848,000 (Note 3)

Notes:

1. There were no financial assets and financial liabilities under the fair value measurement category of level 3 as at 1 January and 31 December 2012. The contingent consideration was arising from acquisition of Catapult during the year ended 31 December 2013 (note 36). There was no other movement in category of level 3 fair value measurements during the year ended 31 December 2013.

2. A slight increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the contingent consideration, and vice versa. A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of the contingent consideration by RMB209,000.

3. A slight increase in the probability-adjusted profits used in isolation would result in an increase in the fair value measurement of the contingent consideration, and vice versa. A 5% decrease in the probability-adjusted profits holding all other variables constant would decrease the carrying amount of the contingent consideration by RMB1,684,000.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

35. ACQUISITION OF A BUSINESS

On 27 December 2012, Chinasoft Beijing, a wholly owned subsidiary of the Company, and Along Grid entered into a sale and purchase agreement. Pursuant to the agreement, Chinasoft Beijing has conditionally agreed to purchase, and Along Grid has conditionally agreed to sell, the IT software outsourcing service and IT software solution business of State Grid Corporation of China electric power field operated by Along Grid and the related employees and assets at a consideration of RMB161,945,000, which was satisfied by RMB90,000,000 in cash and RMB71,945,000 by the allotment and issue of consideration shares. The acquisition was completed in June 2013 and has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB120,905,000.

Consideration transferred

	RMB'000
Cash	90,000
Ordinary shares issued	71,945
	161,945

As part of the consideration, 64,588,274 ordinary share of the Company with par value of HK$0.05 each were issued. The fair value of the issued ordinary shares of the Company, determined using the published price available at the date of acquisition adjusted for the effect of lock-up period, amounted to RMB71,945,000.

Acquisition-related costs amounting to RMB382,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Intangible assets	47,446
Deferred tax liabilities	(6,406)
	41,040

35. ACQUISITION OF A BUSINESS – continued

Goodwill arising on acquisition

	RMB'000
Consideration transferred	161,945
Less: net assets acquired	(41,040)
Goodwill arising on acquisition	120,905

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquiree. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition

	RMB'000
Net cash outflow arising on acquisition:	
Cash consideration paid	90,000

The Company did not prepare the pro forma information of the combined business for the current reporting period as though the acquisition date for the business combination that occurred during the year had been as of the beginning of the annual reporting period because it is impracticable.

36. ACQUISITION OF A SUBSIDIARY

On 13 November 2013, the Group entered into an agreement to acquire 100% equity interest of Catapult in two phases: (i) acquisition of 92.5% equity interest of Catapult (the "Initial Purchase") on 25 November 2013 at a cash consideration of US$37,925,000 (equivalent to RMB232,640,000) and (ii) the acquisition of the remaining 7.5% equity interest within 120 days from 31 December 2016 (the "Second Purchase") at a consideration of US$3,075,000 (equivalent to RMB18,747,000) plus an earn-out payment up to a maximum of US$5,227,500 (equivalent to RMB31,872,000) ("Contingent Consideration").

As the Group is obligated to purchase the remaining 7.5% equity interest in the Second Purchase and Catapult is forbidden to distribute any dividend until the completion of Second Purchase, the directors of the Group considers that the Group has access to the rights and returns associated with the remaining 7.5% equity interest. Therefore, the Initial Purchase and the Second Purchase is regarded as one single transaction and the entire 100% equity interest is consolidated at the date of acquisition while a liability is recorded for the consideration payable for the remaining 7.5% interest of Catapult.

This acquisition has been accounted for using acquisition method.

36. ACQUISITION OF A SUBSIDIARY – continued

Consideration transferred

	RMB'000
Cash – first instalment paid	233,975
Cash – second instalment to be paid upon completion of Second Purchase, at present value	15,170
Contingent consideration payable over one year at present value (Note)	20,466
	269,611

Note:

The payment is contingent upon the achievement of profit target for the year ending 31 December 2016. The contingent consideration is measured at fair value of RMB20,466,000 at the date of acquisition, which is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance and has been estimated on a provisional basis. In the meantime, the provisional goodwill of RMB187,008,000 has been recognised. The directors of the Group determine that there is no fair value change to the contingent consideration from the date of acquisition till the end of 2013.

The provisional values of the assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	4,551
Intangible assets	46,478
Deferred tax assets	2,219
Trade and other payables	(24,075)
Amount due from customer for contract work	8,629
Cash and cash equivalents	7,088
Trade and other receivables	52,955
Borrowings	(15,242)
	82,603

The fair value of trade and other receivables at the date of acquisition amounted to RMB52,955,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB55,719,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB2,764,000.

36. ACQUISITION OF A SUBSIDIARY – continued

Goodwill arising on acquisition

	RMB'000
Consideration transferred	269,611
Less: net assets acquired	(82,603)
Goodwill arising on acquisition	187,008

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Catapult. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition of Catapult

	RMB'000
Cash consideration paid	233,975
Less: cash and cash equivalent balances acquired	(7,088)
	226,887

Included in the profit for the year is RMB1,382,000 loss attributable to the additional business generated by Catapult. Revenue for the year includes RMB28,507,000 generated from Catapult.

Had the acquisition been completed on 1 January 2013, total group revenue for the year would have been RMB3,567,952,000, and profit for the year would have been RMB208,440,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Catapult been acquired at the beginning of the current year, the directors have:

- calculated depreciation/amortisation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements;
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination; and
- assumed no further contingent consideration need to be paid.

37. ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN SUBSIDIARIES

For the year ended 31 December 2013

In April 2013, the Group acquired a further 2.44% additional equity interests in an existing non-wholly owned subsidiary, Shanghai Huateng from a non-controlling owner of the subsidiary for a consideration of RMB7,222,000 (equivalent to HK$9,015,000) to be satisfied by the issue of 4,926,000 ordinary shares of the Company.

In June 2013, the Group acquired a further 20% equity interests in an existing non-wholly owned subsidiary, Chinasoft Resources Shanghai from a non-controlling owner of the subsidiary for a cash consideration of RMB1,200,000 which was paid in 2013. The fair value of the consideration paid RMB1,200,000 is recognised directly in equity.

For the year ended 31 December 2012

In June 2012, the Group acquired a further 40% equity interests in an existing non-wholly owned subsidiary, Dalian Digitall from a non-controlling owner of the subsidiary for a cash consideration of JPY10,000,000 (equivalent to approximately RMB793,000) which was paid in 2012. The fair value of the consideration paid RMB793,000 is recognised directly in equity.

In August 2012, the Group acquired a further 34% equity interests in an existing non-wholly owned subsidiary, Han Consulting from a non-controlling owner of the subsidiary for a cash consideration of RMB1,500,000 which was paid in 2012. The fair value of the consideration paid RMB1,500,000 is recognised directly in equity.

38. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain bank deposits as collaterals for short-term trade facilities granted to the Group as per note 25.

The group had also pledged certain trade receivables to secure bank loans granted to the Group as per note 28.

39. 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:

	2013	2012
	RMB'000	RMB'000
Within one year	**101,517**	86,157
In the second to fifth year inclusive	**77,680**	107,555
	179,197	193,712

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 five years (2012: one year to five years) for the Group and rentals are normally fixed during the lease period.

40. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	336,900	200
– acquisition of a business	70,419	–
	407,319	200
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	179,863	–

41. SHARE OPTION SCHEME

The Company's share option scheme (the "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. Under the Share Option Scheme, 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 Scheme. 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. The Share Option Scheme will remain valid for a period of ten years commencing on 2 June 2003. An option may be exercised in accordance with the terms of the Share Option Scheme 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 Scheme 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 Scheme 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 Scheme 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.

41. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors, other employees and customers of the Group during the year ended 31 December 2013 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2013
Directors and other employees:									
	13.8.2003	HK$ 0.58	13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,392,500	–	–	(1,392,500)	–
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,877,500	–	(717,500)	(1,160,000)	–
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	375,000	–	(225,000)	–	150,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	375,000	–	(225,000)	–	150,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	5,200,000	–	(1,050,000)	–	4,150,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	7,300,000	–	(1,050,000)	–	6,250,000
	30.3.2006	HK$ 0.97	Nil	30.3.2006 – 29.3.2016	175,000	–	–	–	175,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	2,475,000	–	(575,000)	–	1,900,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,275,000	–	(825,000)	–	2,450,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	1,875,000	–	–	–	1,875,000
	10.4.2007	HK$ 1.78	Nil	10.4.2007 – 9.4.2017	2,985,000	–	(100,000)	–	2,885,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	5,595,000	–	(500,000)	–	5,095,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	5,562,500	–	(625,000)	–	4,937,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	6,212,500	–	(875,000)	–	5,337,500

41. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2013
	22.10.2010	HK$ 2.00	Nil	22.10.2010 – 21.10.2013	18,714,600	–	(17,168,850)	(1,545,750)	–
			22.10.2010 – 21.10.2011	22.10.2011 – 21.10.2013	18,840,000	–	(17,100,000)	(1,740,000)	–
			22.10.2010 – 21.10.2012	22.10.2012 – 21.10.2013	25,200,000	–	(22,260,000)	(2,940,000)	–
	19.9.2012	HK$ 1.67	Nil	19.9.2012 – 18.9.2015	9,000,000	–	–	–	9,000,000
			19.9.2012 – 18.9.2013	19.9.2013 – 18.9.2015	9,000,000	–	–	–	9,000,000
			19.9.2012 – 19.9.2014	19.9.2014 – 18.9.2015	12,000,000	–	–	–	12,000,000
					137,429,600	–	(63,296,350)	(8,778,250)	65,355,000
Customers:	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	2,000,000	–	–	–	2,000,000
					8,000,000	–	–	–	8,000,000
Total					145,429,600	–	(63,296,350)	(8,778,250)	73,355,000
Exercisable at the end of the year									61,355,000
Weighted average exercise price					HK$ 1.62	–	HK$ 1.90	HK$ 1.59	HK$ 1.32

41. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors, other employees and customers of the Group during the year ended 31 December 2012 are as follows:

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2013
Directors and other employees:									
	13.8.2003	HK$ 0.58	13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,392,500	–	–	–	1,392,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,877,500	–	–	–	1,877,500
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	6,200,000	–	(1,000,000)	–	5,200,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	8,300,000	–	(1,000,000)	–	7,300,000
	30.3.2006	HK$ 0.97	Nil	30.3.2006 – 29.3.2016	450,000	–	(275,000)	–	175,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	2,750,000	–	(275,000)	–	2,475,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,550,000	–	(275,000)	–	3,275,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	2,150,000	–	(275,000)	–	1,875,000
	10.4.2007	HK$ 1.78	Nil	10.4.2007 – 9.4.2017	3,610,000	–	(625,000)	–	2,985,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	6,220,000	–	(625,000)	–	5,595,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	6,062,500	–	(500,000)	–	5,562,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	6,462,500	–	(250,000)	–	6,212,500
	2.2.2009	HK$ 0.48	Nil	2.2.2009 – 1.2.2012	2,395,000	–	(2,235,000)	(160,000)	–
			2.2.2009 – 1.2.2010	2.2.2010 – 1.2.2012	2,675,000	–	(2,295,000)	(380,000)	–
			2.2.2009 – 1.2.2011	2.2.2011 – 1.2.2012	5,780,000	–	(3,900,000)	(1,880,000)	–

41. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2013
	15.5.2009	HK$ 0.71	15.5.2009 – 14.5.2010	15.5.2010 – 14.5.2012	7,603,852	–	(7,423,852)	(180,000)	–
			15.5.2009 – 14.5.2011	15.5.2011 – 14.5.2012	6,595,148	–	(6,195,148)	(400,000)	–
	24.8.2009	HK$ 0.86	Nil	24.8.2009 – 23.8.2012	2,640,000	–	(2,640,000)	–	–
			24.8.2009 – 23.8.2010	24.8.2010 – 23.8.2012	3,540,000	–	(3,540,000)	–	–
			24.8.2009 – 23.8.2011	24.8.2011 – 23.8.2012	19,960,000	–	(19,960,000)	–	–
	3.11.2009	HK$ 0.76	Nil	3.11.2009 – 2.11.2012	11,228,492	–	(11,228,492)	–	–
			3.11.2009 – 2.11.2010	3.11.2010 – 2.11.2012	11,909,360	–	(11,909,360)	–	–
			3.11.2009 – 2.11.2011	3.11.2011 – 2.11.2012	19,759,148	–	(19,699,148)	(60,000)	–
	22.10.2010	HK$ 2.00	Nil	22.10.2010 – 21.10.2013	18,804,600	–	(90,000)	–	18,714,600
			22.10.2010 – 21.10.2011	22.10.2011 – 21.10.2013	18,900,000	–	(60,000)	–	18,840,000
			22.10.2010 – 21.10.2012	22.10.2012 – 21.10.2013	25,200,000	–	–	–	25,200,000
	19.9.2012	HK$ 1.67	Nil	19.9.2012 – 18.9.2015	–	9,000,000	–	–	9,000,000
			19.9.2012 – 18.9.2013	19.9.2013 – 18.9.2015	–	9,000,000	–	–	9,000,000
			19.9.2012 – 19.9.2014	19.9.2014 – 18.9.2015	–	12,000,000	–	–	12,000,000
					206,765,600	30,000,000	(96,276,000)	(3,060,000)	137,429,600
Customers:	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	2,000,000	–	–	–	2,000,000
					8,000,000	–	–	–	8,000,000
Total					214,765,600	30,000,000	(96,276,000)	(3,060,000)	145,429,600
Exercisable at the end of the year									124,429,600
Weighted average exercise price					HK$ 1.22	HK$ 1.67	HK$ 0.78	HK$ 0.53	HK$ 1.62

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$2.41 (2012: HK$1.87).

41. SHARE OPTION SCHEME – continued

The estimated fair value of the share options granted on 19 September 2012 was HK$0.53 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$1.67
Exercise price	HK$1.67
Expected volatility	49.36%
Time to maturity	3 years
Risk-free rate	0.29%
Expected dividend yield	0.00%

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,095 days in 2012.

The Group recognised a total expense of RMB5,372,000 for the year ended 31 December 2013 (2012: RMB11,544,000) in relation to share options granted by the Company.

42. RETIREMENT BENEFITS SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirements plans for its employees in the PRC. The Group is required to contribute a certain percentage of the basic salaries of its employees to the retirements plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirements plans are responsible for the entire present obligation to retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund ("MPF") scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

During the year, the total cost of retirement benefits contributions charged to profit or loss of RMB 166,641,000 (2012: RMB158,375,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

43. 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	2013 RMB'000	2012 RMB'000
Provision of IT outsourcing services			
–日本國株式會社CDI	(b) & (i)	–	4,740
– Huawei Group	(a) & (ii)	711,548	469,741
Provision of IT solution services			
– Huateng Data	(c) & (iii)	1,044	2,331
Sales of software and provision of IT solution service			
–弘毅投資管理(天津)(有限合伙) ("Hony Capital (Tianjin)")	(d) & (iv)	–	672
– Hony Capital Limited		517	–
Outsourcing service fee charged by			
– Huateng Intelligent	(c) & (v)	11,337	11,447

Notes:

(a) Huawei is the non-controlling owner of CSITS, a non-wholly owned subsidiary of the Company. Following the establishment of CSITS in April 2012, Huawei Group became a related party of the Group thereafter.

(b) 日本國株式會社CDI is a former substantial shareholder of Dalian Digitall, a subsidiary of the Company. Following the acquisition of entire remaining equity interest in Dalian Digitall by Chinasoft Resource International in June 2012, 日本國株式會社CDI ceased to be a related party of the Group thereafter. The transactions with 日本國株式會社CDI shown above represent the transactions occurred up to June 2012.

(c) Huateng Data and Huateng Intelligent were disposed of by the Group in August 2013. Following the disposal of Huateng Data and Huateng Intelligent by the Group in August 2013, Huateng Data and Huateng Intelligent ceased to be related parties of the Group thereafter. The transactions with Huateng Data and Huateng Intelligent shown above represent the transactions occurred up to August 2013.

(d) Keen Insight Limited is a substantial shareholder of the Company. Hony Capital Fund 2008, L.P. ("Hony Capital") is the shareholder of Keen Insight Limited. Hony Capital Limited and Hony Capital (Tianjin) are wholly owned subsidiaries of Hony Capital.

43. RELATED PARTY TRANSACTIONS – continued

Notes: – continued

(i) During 2012, the Group provided IT outsourcing services of RMB4,740,000 to 日本國株式會社CDI.日本國株式會社CDI ceased to be a related party of the Group since June 2012.

(ii) During the year, the Group provided IT outsourcing services of RMB711,548,000 (2012: RMB469,741,000) to Huawei Group. At 31 December 2013, an amount of RMB335,292,000 (2012: RMB334,791,000) was included in trade and other receivables in the consolidated statement of financial position.

(iii) During January 2013 to August 2013, the Group provided IT solution services of RMB1,044,000 (2012: RMB 2,331,000) to Huateng Data. The amount was fully settled during the year.

(iv) During the year, the Group provided IT solution services of RMB517,000 (2012: nil) to Hony Capital Limited. At 31 December 2013, an amount of RMB517,000 (2012: nil) was included in trade and other receivables in the consolidated statement of financial position.

(v) During January 2013 to August 2013, the Group received IT solution services of RMB11,337,000 (2012: 11,447,000) from Huateng Intelligent. The amount was fully paid during the year.

Compensation of key management personnel

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

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**6,066**	7,187
Retirement benefits costs	**191**	187
Share option expenses	**84**	1,661
	6,341	9,035

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

44. EVENT AFTER THE REPORTING PERIOD

On 27 December 2013, CSITS, a subsidiary of the Company, and Pactera Technology International Ltd. ("Pactera") entered into several sale and purchase agreements. Pursuant to the agreements, CSITS agreed to purchase, and Pactera and its affiliates agreed to sell, the outsourcing business with Huawei and the relevant certain assets and leases in connection with the business with Huawei at a consideration of RMB91,453,500 (equivalent to US$15,000,000) which to be satisfied in cash. The transaction was completed in January 2014.

As of the date of approval for issuance of these financial statements, management of the Group is still in the midst of determining the financial effect of the acquisition.

45. 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:

	2013 RMB'000	2012 RMB'000
Non-current assets		
Interests in subsidiaries	1,316,872	621,167
Prepaid lease payments	179	314
Derivative financial instruments	649	–
	1,317,700	621,481
Current assets		
Other receivables	1,628	1,497
Prepaid lease payments	149	178
Amounts due from a related company	1	1
Amounts due from subsidiaries	517,158	634,272
Pledged deposits	3,798	–
Bank balances and cash	585	604
	523,319	636,552
Current liabilities		
Trade and other payables	8,361	7,399
Dividend payable	73	75
Convertible loan notes	–	199,087
	8,434	206,561
Net current assets	514,885	429,991
Total assets less current liabilities	1,832,585	1,051,472
Non-current liabilities		
Convertible loan notes	189,038	–
Borrowings	457,268	–
	646,306	–
	1,186,279	1,051,472
Capital and reserves		
Share capital	87,085	81,804
Reserves	1,099,194	969,668
Total equity	1,186,279	1,051,472

45. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY – continued

Note: Movement in reserves

	Share premium RMB'000	Hedging reserve RMB'000	Share option reserve RMB'000	Convertible loan notes reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
At 1 January 2012	1,355,335	–	78,222	15,167	(518,097)	930,627
Loss and total comprehensive expense for the year	–	–	–	–	(29,514)	(29,514)
Issue of ordinary share upon exercise of share options	76,738	–	(19,510)	–	–	57,228
Recognition of share option expenses	–	–	11,544	–	–	11,544
Cancellation of share options	–	–	(498)	–	498	–
Share repurchased and cancelled	(217)	–	–	–	–	(217)
At 31 December 2012 and 1 January 2013	1,431,856	–	69,758	15,167	(547,113)	969,668
Loss for the year	–	–	–	–	(60,944)	(60,944)
Other comprehensive income for the year – fair value gain on hedging instruments in cash flow hedge	–	649	–	–	–	649
Total comprehensive (income) expense for the year	–	649	–	–	(60,944)	(60,295)
Issue of ordinary share upon acquisition of a business	69,372	–	–	–	–	69,372
Issue of ordinary share upon exercise of share options	120,397	–	(27,569)	–	–	92,828
Recognition of share option expenses	–	–	5,372	–	–	5,372
Cancellation of share options	–	–	(8,748)	–	8,748	–
Issue of ordinary shares for acquisition of additional equity interests in subsidiaries	7,025	–	–	–	–	7,025
Extension of convertible loan notes	–	–	–	15,224	–	15,224
At 31 December 2013	1,628,650	649	38,813	30,391	(599,309)	1,099,194

Financial Summary

RESULTS

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	1,104,602	1,601,211	2,243,754	2,768,171	**3,205,985**
Profit (loss) before taxation	(107,077)	(15,079)	150,687	187,716	**204,918**
Taxation	(13,480)	(14,657)	(29,611)	(37,574)	**(4,890)**
Profit (loss) for the year	(120,557)	(29,736)	121,076	150,142	**200,028**
Attributable to:					
Owners of the Company	(126,743)	(40,133)	110,594	133,189	**148,301**
Non-controlling interests	6,186	10,397	10,482	16,953	**51,727**
	(120,557)	(29,736)	121,076	150,142	**200,028**
Dividend	–	–	–	–	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,468,512	2,373,623	2,947,534	3,442,350	**4,672,957**
Total liabilities	(691,498)	(1,271,620)	(1,143,849)	(1,380,067)	**(2,231,756)**
	777,014	1,102,003	1,803,685	2,062,283	**2,441,201**