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中软国际

# CHINASOFT INTERNATIONAL LIMITED

## 中軟國際有限公司*

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

**(Stock Code: 354)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "Board") of directors (the "Directors") of Chinasoft International Limited ("Chinasoft" or the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, together with the comparative audited consolidated figures for the year ended 31 December 2017 are as follows:

**HIGHLIGHTS**
**Results for the year ended 31 December 2018**

| **Income statement highlights** | **2018** *RMB'000* | 2017 *RMB'000* | Growth rate |
|---|---|---|---|
| Revenue | **10,585,013** | 9,243,684 | 14.5% |
| Service revenue | **10,339,012** | 8,807,512 | 17.4% |
| Profit for the year | **716,171** | 561,307 | 27.6% |
| Profit for the year attributable to owners of the Company | **715,803** | 565,567 | 26.6% |
| Basic earnings per share (cents) | **29.54** | 23.59 | 25.2% |

- The Board recommended the payment of a final dividend for the year ended 31 December 2018 of HK$0.0215 per share.

- In order to ascertain the right to attend the forthcoming annual general meeting, the Register of Member will be closed from Wednesday, 15 May 2019 to Monday, 20 May 2019, both dates inclusive, during which period no share transfer shall be registered.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2018*

| | *NOTES* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue | *3* | **10,585,013** | 9,243,684 |
| Cost of sales and services | | **(7,340,356)** | (6,493,218) |
| Gross profit | | **3,244,657** | 2,750,466 |
| Other income | | **64,078** | 100,491 |
| Loss from derecognition of financial assets measured at amortised cost | | **(7,139)** | (3,846) |
| Impairment losses, net of reversal | | **(35,200)** | (25,862) |
| Other gains or losses | | **(5,669)** | (4,065) |
| Selling and distribution costs | | **(495,524)** | (369,729) |
| Administrative expenses | | **(1,091,148)** | (1,086,325) |
| Research and development costs | | **(739,434)** | (567,313) |
| Other expenses | | **(68,402)** | (81,742) |
| Finance costs | *4* | **(117,987)** | (99,069) |
| Share of results of investments accounted for using the equity method | | **12,222** | 19,763 |
| Profit before taxation | | **760,454** | 632,769 |
| Income tax expense | *5* | **(44,283)** | (71,462) |
| Profit for the year | *6* | **716,171** | 561,307 |

| | NOTES | 2018 | 2017 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Other comprehensive (expense) income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Fair value loss on investment in equity instrument at fair value through other comprehensive income | | **(13,834)** | – |
| Item that may be reclassified subsequently to profit or loss: | | | |
| – exchange differences arising on translation of foreign operations | | **19,383** | (52,931) |
| Other comprehensive income (expense) for the year, net of tax | | **5,549** | (52,931) |
| Total comprehensive income for the year | | **721,720** | 508,376 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **715,803** | 565,567 |
| Non-controlling interests | | **368** | (4,260) |
| | | **716,171** | 561,307 |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **721,352** | 512,636 |
| Non-controlling interests | | **368** | (4,260) |
| | | **721,720** | 508,376 |
| Earnings per share | 8 | | |
| Basic | | **RMB0.2954** | RMB0.2359 |
| Diluted | | **RMB0.2789** | RMB0.2311 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2018*

| | *NOTES* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Non-current assets | | | |
| Property, plant and equipment | | **837,634** | 852,519 |
| Intangible assets | | **148,172** | 179,450 |
| Goodwill | | **1,006,337** | 996,789 |
| Investments accounted for using the equity method | | **144,280** | 133,218 |
| Available-for-sale investment | | **–** | 65,342 |
| Equity instrument at fair value through other comprehensive income | | **51,508** | – |
| Prepaid lease payments | | **37,003** | 37,863 |
| Other receivables | | **29,935** | 30,000 |
| Deferred tax assets | | **8,675** | 7,504 |
| | | **2,263,544** | 2,302,685 |
| Current assets | | | |
| Inventories | | **63,698** | 26,024 |
| Trade and other receivables | *9* | **2,585,247** | 1,960,240 |
| Bills receivable | | **22,212** | 11,909 |
| Contract assets | | **2,819,117** | – |
| Prepaid lease payments | | **860** | 860 |
| Amounts due from customers for contract work | | **–** | 2,579,998 |
| Amounts due from related companies | | **67,765** | 83,854 |
| Pledged deposits | | **19,426** | 658 |
| Bank balances and cash | | **2,646,375** | 1,785,305 |
| | | **8,224,700** | 6,448,848 |
| Current liabilities | | | |
| Amounts due to customers for contract work | | **–** | 44,572 |
| Trade and other payables | *10* | **1,497,011** | 1,584,295 |
| Bills payable | | **45,280** | 20,473 |
| Contract liabilities | | **166,078** | – |
| Amounts due to related companies | | **18,185** | 59,151 |
| Dividend payable | | **81** | 78 |
| Taxation payable | | **125,174** | 157,699 |
| Convertible loan notes | | **198,263** | – |
| Borrowings | *11* | **1,675,646** | 685,750 |
| | | **3,725,718** | 2,552,018 |
| Net current assets | | **4,498,982** | 3,896,830 |
| Total assets less current liabilities | | **6,762,526** | 6,199,515 |

| | NOTES | 2018 | 2017 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **11,062** | 15,904 |
| Convertible loan notes | | **719,941** | 953,645 |
| | | **731,003** | 969,549 |
| | | **6,031,523** | 5,229,966 |
| Capital and reserves | | | |
| Share capital | | **112,994** | 110,283 |
| Share premium | | **2,982,319** | 2,809,329 |
| Treasury share | | **(76,451)** | – |
| Reserves | | **2,948,128** | 2,246,189 |
| Equity attributable to owners of the Company | | **5,966,990** | 5,165,801 |
| Non-controlling interests | | **64,533** | 64,165 |
| Total equity | | **6,031,523** | 5,229,966 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2018*

## 1. GENERAL INFORMATION OF THE COMPANY

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

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

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

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

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

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

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

### 2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Provision of solutions on project-based development contracts

- Provision of outsourcing services and training services

- Sales of goods

There was no material impact of transition to HKFRS 15 on accumulated profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

**Summary of effects arising from initial application of HKFRS 15**

| | **Carrying amounts previously reported at 31 December 2017** | **Reclassification*** | **Carrying amounts under HKFRS 15 at 1 January 2018**** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current assets** | | | |
| Amounts due from customers for contract work | 2,579,998 | (2,579,998) | – |
| Contract assets | – | 2,579,998 | 2,579,998 |
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 44,572 | (44,572) | – |
| Trade and other payables | 1,584,295 | (18,978) | 1,565,317 |
| Contract liabilities | – | 63,550 | 63,550 |

* In relation to provision of solutions on project-based development contracts previously accounted under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. RMB2,579,998,000 and RMB44,572,000 of amounts due from/to customers for contract work were reclassified to contract assets, and contract liabilities respectively.

** The amounts in this column are before the adjustments from the application of HKFRS 9.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included. The Group's consolidated statement of profit or loss and other comprehensive income for the current year was not affected by applying HKFRS 15.

**Impact on the consolidated statement of financial position**

| | As reported at 31 December 2018 | Adjustments | Amounts without application of HKFRS 15 at 31 December 2018 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current assets** | | | |
| Amounts due from customers for contract work | – | 2,819,117 | 2,819,117 |
| Contract assets | 2,819,117 | (2,819,117) | – |
| **Current liabilities** | | | |
| Amounts due to customers for contract work | – | 158,139 | 158,139 |
| Trade and other payables | 1,497,011 | 7,939 | 1,504,950 |
| Contract liabilities | 166,078 | (166,078) | – |

**Impact on the consolidated statement of cash flows**

| | As reported for the year ended 31 December 2018 | Adjustments | Amounts without application of HKFRS 15 for the year ended 31 December 2018 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Increase in amounts due from customers for contract work | – | (241,349) | (241,349) |
| Increase in contract assets | (241,349) | 241,349 | – |
| Increase in amounts due to customers for contract work | – | 113,567 | 113,567 |
| Decrease in trade and other payables | (39,458) | (11,039) | (50,497) |
| Increase in contract liabilities | 102,528 | (102,528) | – |

## 2.2 HKFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and, 3) hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

**Summary of effects arising from initial application of HKFRS 9**

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | **Available-for-sale investment** *RMB'000* | **Equity instrument at FVTOCI** *RMB'000* | **Financial assets at amortised cost (previously classified as loans and receivables** *RMB'000* | **Contract Assets** *RMB'000* | **Accumulated profits** *RMB'000* |
|---|---|---|---|---|---|
| Closing balance at 31 December 2017 – HKAS 39 | 65,342 | – | 3,730,548 | – | 1,870,131 |
| Effect arising from initial application of HKFRS 15: | – | – | – | 2,579,998 | – |
| Effect arising from initial application of HKFRS 9: | – | – | – | – | – |
| Reclassification | – | – | – | – | – |
| From available-for-sale | (65,342) | 65,342 | – | – | – |
| Remeasurement | – | – | – | – | – |
| Impairment under ECL model | – | – | (26,370) | (6,132) | (32,502) |
| **Opening balance at 1 January 2018** | – | 65,342 | 3,704,178 | 2,573,866 | 1,837,629 |

**Available-for-sale investment**

The Group elected to present in other comprehensive income for the fair value changes of all its equity investment previously classified as available-for-sale investment. The investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB65,432,000 was reclassified from available-for-sale investment to equity instrument at FVTOCI, which is an unquoted equity investment previously measured at cost less impairment under HKAS 39.

**Impairment under ECL model**

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and contract assets. Except for those which had been determined as credit impaired under HKAS 39, trade receivables and contract assets have been assessed individually with significant outstanding balances, and the remaining balances are grouped based on internal credit rating. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including non-current other receivables, bills receivable, current other receivables, pledged deposits, bank balances and amounts due from related companies, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of RMB32,502,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective assets.

There were no financial assets or financial liabilities which the Group had previously designated as at fair value through profit or loss ("FVTPL") or measured at amortised cost under HKAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of HKFRS 9.

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | 31 December 2017 (Audited) *RMB'000* | HKFRS 15 *RMB'000* | HKFRS 9 *RMB'000* | **1 January 2018 (Restated)** ***RMB'000*** |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Available-for-sale investment | 65,342 | – | (65,342) | **–** |
| Equity instrument at FVTOCI | – | – | 65,342 | **65,342** |
| Other receivables | 30,000 | – | (65) | **29,935** |
| **Current assets** | | | | |
| Trade and other receivables | 1,960,240 | – | (24,918) | **1,935,322** |
| Bills receivable | 11,909 | – | (12) | **11,897** |
| Amounts due from customers for contract work | 2,579,998 | (2,579,998) | – | **–** |
| Amounts due from related companies | 83,854 | – | (1,375) | **82,479** |
| Contract assets | – | 2,579,998 | (6,132) | **2,573,866** |
| **Current Liabilities** | | | | |
| Amounts due to customers for contract work | 44,572 | (44,572) | – | **–** |
| Trade other payables | 1,584,295 | (18,978) | **–** | **1,565,317** |
| Contract liabilities | – | 63,550 | – | **63,550** |
| **Capital and reserves** | | | | |
| Reserves | 2,246,189 | – | (32,502) | **2,213,687** |

*Note:* For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

**New and amendments to HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

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

5 Effective for annual periods beginning on or after 1 January 2020

Other than described below, the directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Lease and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of the lease modifications, amongst other. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payment in relation to lease liabilities will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB365,556,000. A prelimiary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognised a right-of-use asset and a corresponding liability in respect of all these leases, unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB9,517,000 and refundable rental deposits received of RMB1,257,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

## 3. REVENUE AND SEGMENT INFORMATION

**Segment revenue and results**

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

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

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

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

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

| | **Segment revenue** | | **Segment results** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| TPG | **9,174,855** | 7,858,648 | **795,281** | 715,660 |
| IIG | **1,410,158** | 1,385,036 | **133,064** | 132,835 |
| | **10,585,013** | 9,243,684 | **928,345** | 848,495 |

In 2018, the segment revenue is reported after eliminating inter-segment services revenue of RMB269,597,000 (2017: RMB344,233,000).

In 2018, the Group recognised a total of RMB5,070,766,000 (2017: RMB4,196,228,000) revenue from project-based development contracts.

Reconciliation of segment results to profit before taxation:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Segment results | **928,345** | 848,495 |
| Other income, gains and losses unallocated | **4,360** | 84 |
| Interest charge on convertible loan notes | **(59,236)** | (40,156) |
| Corporate expenses | **(59,718)** | (25,702) |
| Share option expenses | **(53,297)** | (149,952) |
| Profit before taxation | **760,454** | 632,769 |

Segment revenue reported above represents revenue generated from external customers. Inter-segment services are charged at a cost plus margin basis.

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

**Segment assets and liabilities**

Information reported to the CODM for the purposes of resources allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

**Geographical information**

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

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

| | Revenue from external customers | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| PRC | **10,036,162** | 8,766,645 |
| USA | **403,289** | 402,095 |
| Japan | **74,554** | 63,263 |
| Malaysia | **44,848** | 3,048 |
| India | **26,151** | 5,400 |
| Others | **9** | 3,233 |
| | **10,585,013** | 9,243,684 |

Segment revenue by products and services:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sale of software and hardware products | **246,001** | 436,172 |
| Provision of services | | |
| Technology professional services | **9,022,237** | 7,615,969 |
| Internet IT services | **1,316,775** | 1,191,543 |
| | **10,339,012** | 8,807,512 |
| | **10,585,013** | 9,243,684 |

**Information about major customers**

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A (revenue reported under TPG) | **5,620,045** | 4,872,538 |

No other single customers contributed 10% or more to the Group's revenue for both 2018 and 2017.

**Other segment information**

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

| 2017 | IIG | TPG | Unallocated | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts included in the measure of segment profit or loss | | | | |
| Depreciation and amortisation | 68,642 | 108,211 | 669 | 177,522 |
| Loss from derecognition of financial assets measured at amortised cost | – | 3,846 | – | 3,846 |
| Finance costs | 19,155 | 40,118 | 40,156 | 99,069 |
| Impairment losses, net of reversal | 12,365 | 13,497 | – | 25,862 |
| Interest income from pledged deposits and bank balances | (2,210) | (2,346) | (1,171) | (5,727) |
| Share of results of investments accounted for using the equity method | (21,654) | 1,891 | – | (19,763) |
| Loss on disposal of property, plant and equipment | 130 | 358 | 131 | 619 |

## 4. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on borrowings | **58,751** | 58,913 |
| Effective interest on convertible loan notes | **59,236** | 40,156 |
| | **117,987** | 99,069 |

## 5. INCOME TAX EXPENSE

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Tax charge comprises: | | |
| PRC Enterprise Income Tax | | |
| – current year | **75,990** | 89,085 |
| – over-provision in prior years | **(30,090)** | (15,812) |
| | **45,900** | 73,273 |
| Japan Corporate Income Tax | **1,078** | 657 |
| Others | **3,564** | 504 |
| | **50,542** | 74,434 |
| Deferred tax | **(6,259)** | (2,972) |
| | **44,283** | 71,462 |

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

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 6 December 2017, Chinasoft International Information Technology Limited ("Chinasoft Beijing") was designated as a High and New Technology Enterprise ("HNTE") for a period up to the end of 2020. As a result, Chinasoft Beijing was subject to the income tax rate of 15% for both years.

According to the Notice of the Ministry of Industry and Information Technology, the Ministry of Finance, the State Taxation Administration and National Development Reform Commission on Relevant Issues Concerning the Preferential Policies on Enterprise Income Tax of Software and Integrated Circuit Industry ("Cai Shui 2016 No. 49") and the Notice of the Ministry of Finance and the State Taxation Administration on Further Encouraging the Development of Enterprise Income Tax Policies for the Software Industry and Integrated Circuit Industry ("Cai Shui 2012 No. 27"), Chinasoft International Shanghai Huateng Software Systems Co., Ltd ("Shanghai Huateng") was entitled to a reduced income tax rate of 10% for the years ended 31 December 2017 and 2018.

According to Cai Shui 2016 No. 49 and Cai Shui 2012 No. 27, Chinasoft International Technology Services Limited ("CSITS") was entitled to a reduced income tax rate of 10% for the years ended 31 December 2017 and 2018.

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

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:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **760,454** | 632,769 |
| Tax at PRC Enterprise Income Tax rate of 25% (2017: 25%) | **190,114** | 158,192 |
| Tax effect of share of results of interests in entities measured under equity method | **(3,056)** | (4,941) |
| Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries | **(114,988)** | (127,707) |
| Tax effect of 150% (2017: 150%) deduction rate on certain research and development expenses | **(61,555)** | (20,880) |
| Tax effect of expenses not deductible for tax purpose | **61,257** | 75,906 |
| Over-provision in prior years | **(30,090)** | (15,812) |
| Tax effect of utilisation of tax losses previously not recognised | **(804)** | (811) |
| Tax effect of tax losses not recognised | **5,447** | 6,400 |
| Effect of different tax rates of subsidiaries | **(2,042)** | (1,336) |
| Withholding tax *(Note)* | **–** | 2,451 |
| Income tax expense for the year | **44,283** | 71,462 |

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

## 6. PROFIT FOR THE YEAR

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' remuneration | **12,053** | 8,388 |
| Retirement benefits costs (excluding those for directors) | **403,172** | 331,130 |
| Share option expenses (excluding those for directors) | **52,797** | 149,413 |
| Other staff costs | **7,889,516** | 6,597,908 |
| Total staff costs | **8,357,538** | 7,086,839 |
| Less: Staff costs capitalised as development costs | **(37,124)** | (30,117) |
| | **8,320,414** | 7,056,722 |
| Research and development costs expensed | **739,434** | 567,313 |
| Depreciation of property, plant and equipment | **122,405** | 94,920 |
| Amortisation of intangible assets | **68,402** | 81,742 |
| Amortisation of prepaid lease payments | **860** | 860 |
| | **191,667** | 177,522 |
| Auditor's remuneration | **7,200** | 6,300 |
| Cost of inventories recognised as an expense | **194,921** | 431,151 |
| Minimum lease payments in respect of buildings | **241,619** | 228,611 |
| Net foreign exchange (gain) loss (included in other gains and losses) | **(5,124)** | 3,446 |
| Loss on disposal of property, plant and equipment | **1,177** | 619 |
| Interest income from pledged deposits and bank balances | **(12,175)** | (5,727) |
| Government grants | **(41,929)** | (86,674) |
| Value added tax refund | **(1,505)** | (1,210) |

## 7. DIVIDENDS

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Dividends for ordinary shares of the Company recognised as distribution during the year: | | |
| 2017 Final – HK1.8 cents (2016: HK1.2 cents) per share | **36,875** | 25,019 |

Subsequent to the end of the reporting period, a final dividend in respect of year ended 31 December 2018 of HK 2.15 cents (2017: HK1.8 cents) per ordinary shares has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 8. EARNINGS PER SHARE

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **715,803** | 565,567 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible loan notes | **59,236** | 40,156 |
| Earnings for the purpose of diluted earnings per share | **775,039** | 605,723 |

| | **2018** | 2017 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,423,085** | 2,396,988 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **89,429** | 29,961 |
| Convertible loan notes | **266,115** | 193,746 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,778,629** | 2,620,695 |

The number of shares adopted in the calculation of the basic earnings per share has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme.

The computation of diluted earnings per share for the year ended 31 December 2018 did not assume the exercise of the Company's share options granted on 28 September 2018 since the exercise prices of those share options were higher than the average market price of shares of the Company.

The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the exercise of the Company's share options granted on 21 September 2017 since the exercise prices of those share options were higher than the average market price of shares of the Company.

## 9. TRADE AND OTHER RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables, net of allowance | **2,139,753** | 1,479,933 |
| Advances to suppliers | **193,787** | 124,606 |
| Deposits, prepayments and other receivables, net of allowance | **281,642** | 385,701 |
| | **2,615,182** | 1,990,240 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **29,935** | 30,000 |
| Current assets | **2,585,247** | 1,960,240 |
| | **2,615,182** | 1,990,240 |

Included in the non-current assets are other receivables representing deposits made in connection with an acquisition of an office building located in the PRC.

The credit terms of the Group range from 30 to 180 days. An aged analysis of trade receivables (net of allowance), presented based on the dates of invoices for sales of goods and services for project-base development contracts, and dates of rendering of other types of services at the end of the reporting period is as follows:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 90 days | **1,681,131** | 1,129,652 |
| Between 91 – 180 days | **246,074** | 155,783 |
| Between 181 – 365 days | **168,267** | 187,322 |
| Between 1 – 2 years | **44,281** | 7,176 |
| | **2,139,753** | 1,479,933 |

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.

## 10. TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **639,678** | 772,647 |
| Deposits received from customers | **–** | 18,978 |
| Other payables | **857,333** | 792,670 |
| | **1,497,011** | 1,584,295 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 90 days | **564,584** | 589,161 |
| Between 91 – 180 days | **5,620** | 27,205 |
| Between 181 – 365 days | **8,113** | 104,253 |
| Between 1 – 2 years | **35,431** | 34,268 |
| Over 2 years | **25,930** | 17,760 |
| | **639,678** | 772,647 |

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

## 11. BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unsecured bank loans *(Note (i))* | **1,673,873** | 685,750 |
| Secured bank loans *(Note (ii))* | **1,773** | – |
| | **1,675,646** | 685,750 |

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount repayable: | | |
| Within one year | **1,675,646** | 685,750 |
| More than one year but within five years | **–** | – |
| | **1,675,646** | 685,750 |
| Less: Amounts due within one year shown under current liabilities | **(1,675,646)** | (685,750) |
| Amounts shown under non-current liabilities | **–** | – |

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Total borrowings | | |
| At floating interest rates *(Note (iii))* | **330,000** | 40,000 |
| At fixed interest rates *(Note (iv))* | **1,345,646** | 645,750 |
| | **1,675,646** | 685,750 |

The Group's borrowings are denominated in currencies of the relevant group entities' functional currencies.

*Notes:*

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

(ii) Trade receivables with a net carrying value of RMB1,773,000 (2017: nil) are pledged to secure certain bank loans granted to the Group.

(iii) Interests on borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 4.76% (2017: 4.58%) per annum.

(iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 4.35% to 5.22% (2017: 4.35% to 4.79%) per annum.

## 12. EVENT AFTER THE REPORTING PERIOD

(a) On 6 March 2019, US$30 million of the second tranche of the convertible loan notes issued in 2016 was converted into 77,994,692 ordinary shares of the Company. The 2016 Convertible Loan Notes have been fully converted thereafter.

(b) 16,094,000 shares of the Company were purchased under the Share Award Scheme with an aggregate consideration of approximately RMB51,051,000 for the Share Award Scheme.

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, the Group's businesses achieved steady growths. The revenue, service revenue, profit, profit attributable to the owners of the Company and basic EPS increased by 14.5%, 17.4%, 27.6%, 26.6%, 25.2% YoY respectively.

| | **2018** | 2017 | % Increase (decrease) over the same period last year |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | |
| Revenue | **10,585,013** | 9,243,684 | 14.5% |
| Service revenue | **10,339,012** | 8,807,512 | 17.4% |
| Profit for the year | **716,171** | 561,307 | 27.6% |
| Profit for the year attributable to owners of the Company | **715,803** | 565,567 | 26.6% |
| Basic earnings per share *(cents)* | **29.54** | 23.59 | 25.2% |

## KEY OPERATING DATA:

| | **2018** | 2017 | % Increase (decrease) over the same period last year |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | |
| **Revenue** | **10,585,013** | 9,243,684 | 14.5% |
| **Service revenue** | **10,339,012** | 8,807,512 | 17.4% |
| **Cost of sales and services** | **(7,340,356)** | (6,493,218) | 13.0% |
| **Gross profit** | **3,244,657** | 2,750,466 | 18.0% |
| **Other income** | **64,078** | 100,491 | (36.2%) |
| **Loss from derecognition of financial assets measured at amortised cost** | **(7,139)** | (3,846) | 85.6% |
| **Impairment losses, net of reversal** | **(35,200)** | (25,862) | 36.1% |
| **Other gains or losses** | **(5,669)** | (4,065) | 39.5% |
| **Selling and distribution costs** | **(495,524)** | (369,729) | 34.0% |
| **Administrative expenses** | **(1,091,148)** | (1,086,325) | 0.4% |
| **Research and development costs** | **(739,434)** | (567,313) | 30.3% |
| **Other expenses** | **(68,402)** | (81,742) | (16.3%) |
| **Finance costs** | **(117,987)** | (99,069) | 19.1% |
| **Share of results of investments accounted for using the equity method** | **12,222** | 19,763 | (38.2%) |
| **Profit before taxation** | **760,454** | 632,769 | 20.2% |
| **Income tax expense** | **(44,283)** | (71,462) | (38.0%) |
| **Profit for the year** | **716,171** | 561,307 | 27.6% |
| **Profit for the year attributable to owners of the Company** | **715,803** | 565,567 | 26.6% |
| **Basic earnings per share (cents)** | **29.54** | 23.59 | 25.2% |

## GENERAL OVERVIEW

In the extraordinary year of 2018, the Group's 60,000 employees united and worked cohesively together, despite downward market trend, to realize sales of over RMB10 billion and demonstrate what it means to be a leading IT service enterprise. The Group's traditional business continued to improve its service quality and the business grew steadily. The Group's emerging business focused on new technologies, ecosystems, and achieved rapid development. The revenue of the emerging businesses accounts for more than 15% of the Group's revenue, and the overall profitability of the Group has steadily increased.

During the reporting period, the Group followed Huawei's pace and used SD (Huawei Supplier Development Plan) to drive the Group's business development and improve service quality and value. The Group's cooperation with Tencent made new breakthroughs and jointly established the Nearshore Delivery Center (NDC). HSBC's business is progressing steadily, and Hang Seng Bank's business is growing rapidly. The Group has become one of top two IT service providers of Ping An Group. The Group strengthened cooperation with Baidu and realized AI technology's in-depth application and scene landing in the financial sector. The Group continued to implement new technology application scenarios, accelerate strategic cooperation and business layout, and focus on "RMB10 billion with higher quality and value".

During the reporting period, Jointforce realized its digital service capabilities and launched the "Cloud Integrative Service" to meet the government software service demands. Currently the number of registered government units on "Cloud Integrative" platform has exceeded 3,000, and the total price of accumulated service projects have exceeded RMB100 million. The new model of "Cloud Integrative" is being quickly recognized, applied and promoted, which makes us more confident in the "absolute success of Jointforce".

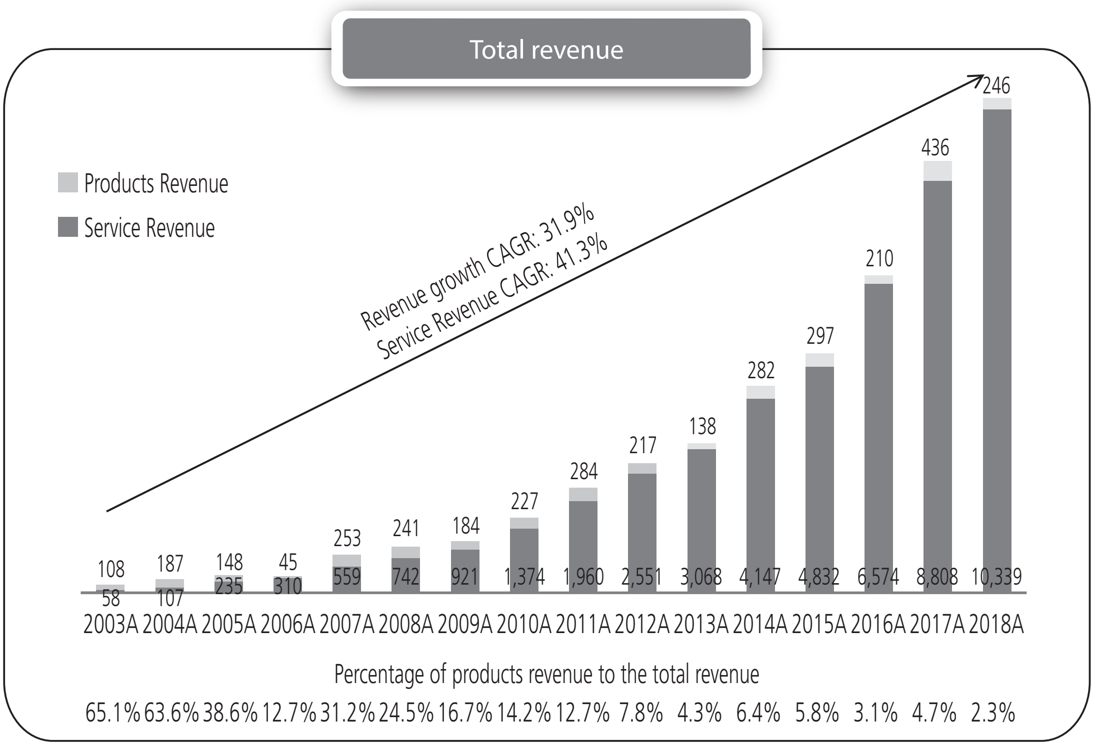
During the reporting period, the Group accelerated its strategic layout in the direction of smart manufacturing. The "Honeycomb" industrial Internet enabling platform has reached strategic cooperation with well-known domestic and foreign companies including Bosch from Germany, Forcam from Germany, ESI from France, Phoenix from Germany, Haier and NARI. The Group cooperated with Nanjing Turing Artificial Intelligence Research Institute to promote the application of digital cities and new technologies, new businesses, new models and new formats of intelligent manufacturing. The Group is preparing to build Cloud & Intelligence Group (CIG). In the future, the Group will further integrate IT technology service capabilities and manufacturing cooperation resources, promote digital transformation and upgrading of enterprises, create a "cloud" ecosystem that integrates software, services, diagnostics, consulting and solutions, and going in the direction of smart manufacturing core integrators.

During the reporting period, the Group's cloud business developed fully and grew at a high speed. In the Chinese market, the Group has built a cloud management service business around Huawei cloud including cloud consulting, cloud migration, cloud operation and maintenance, accumulated DevOps and cloud native application service capabilities through real projects, and made breakthroughs in cloud services such as AI and IoT, and gained high recognition from customers. In the US market, Catapult, a wholly-owned subsidiary of the company, released its subscription solution product "Azure Management Services (AMS)", doubled its subscription business revenue and acquired 16 Microsoft competency certifications, and became a service provider with professional service capability in Azure, Microsoft 365 and Dynamics 365 cloud.

During the reporting period, the Group's data business continued to break through around the strategy of "focusing on the industry" and "deep-plowing solutions". The Group continued to consolidate its existing advantages in the financial industry, and maintained its development momentum in the fields of airports and one-card-system, and developed high-tech, automotive and other manufacturing customers. The Group joined hands with Baidu, Huawei and other companies, the Group innovated and applied AI technology to form AI industry application solutions, and achieved landing of multiple application scenarios in financial, retail and other industries.

Looking forward to the future, the Group will cooperate with Huawei and other strategic customers with "Zero Distance Innovation" to continuously enhance the Group's digital engineering capabilities, transform the old business and develop new business with the spirit of Jointforce, utilize AI, big data, and industrial Internet platforms to build the new digital infrastructure in China, and export new kinetic energy for transformation and upgrading. The Group will continue to demonstrate the value of its strivers. We will continue our goal to become one of the top ten software service providers and a global leader in information technology services.

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 31.9% and 41.3% from 2003-2018. The details are as follow:



## CUSTOMERS

The Group's customers include large enterprises with headquarters in the Greater China region, Europe, America, and Japan. In the Chinese market, the Group holds a larger market share in telecommunication, banking, financial, Internet, and high technology industries. In 2018, the top five and top ten customers accounted for 69.0% and 73.6% of the Group's service revenue.

In 2018, the Group has 1,762 active customers and 127 large customers (contributed to more than RMB6 million of service revenue within the past 12 months).

## MARKET

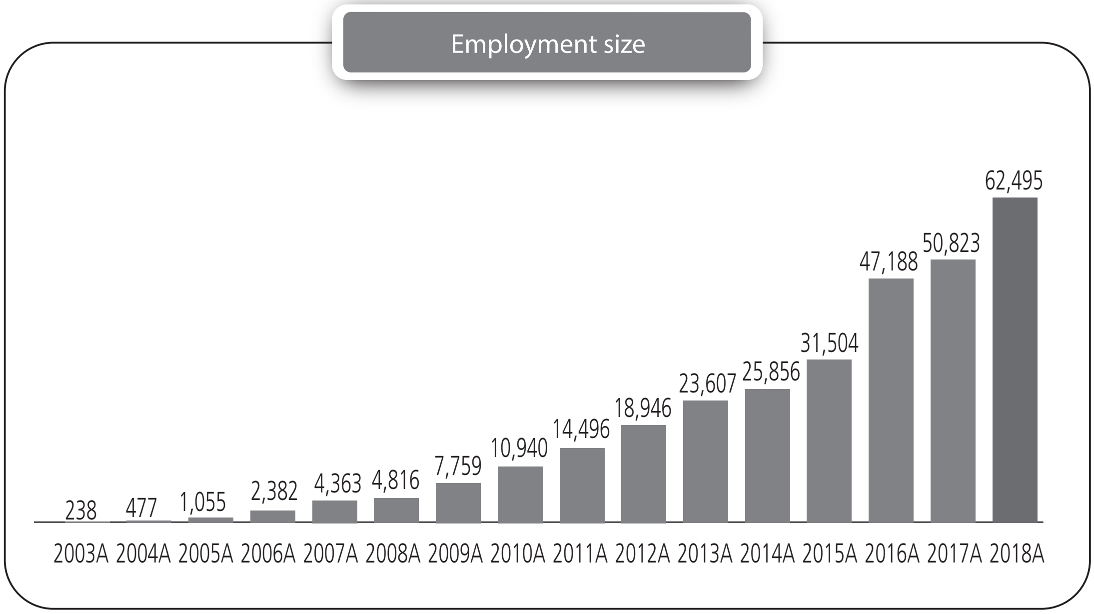
During the reporting period, the Group's main businesses are concentrated in the Greater China region. The huge market potential in the Greater China region continues to bring growth opportunities for the Group. The Group provides ITS to customers from 32 countries and number of Top 500 companies in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

## HUMAN RESOURCES

As of the end of 2018, the Group has a total of 62,495 employees, representing a YoY increase of 23.0% (2017: 50,823). During the reporting period, the annual average employee size was 56,659, representing a YoY increase of 15.6% (2017: 49,006).

As of the end of 2018, the Group employs 60,036 technical staffs, accounting for 96.1% of the total employees. Of which, 22,553 technical staffs are project managers, consultants, and senior engineers, accounting for 37.6% of the total technical staffs.

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



## OPERATING RESULTS

The Group's consolidated income statements in 2017 and 2018 are as follow:

| | **2018** *RMB'000* | **Percentage of revenue** | **Percentage of service revenue** | 2017 *RMB'000* | Percentage of revenue | Percentage of service revenue |
|---|---|---|---|---|---|---|
| Revenue | **10,585,013** | **N/A** | **N/A** | 9,243,684 | N/A | N/A |
| *Service revenue* | ***10,339,012*** | **N/A** | **N/A** | *8,807,512* | N/A | N/A |
| Cost of sales and services | **(7,340,356)** | **(69.3%)** | **(71.0%)** | (6,493,218) | (70.2%) | (73.7%) |
| Gross profit | **3,244,657** | **30.7%** | **31.4%** | 2,750,466 | 29.8% | 31.2% |
| Other income | **64,078** | **0.6%** | **0.6%** | 100,491 | 1.1% | 1.1% |
| Loss from derecognition of financial assets measured at amortised cost | **(7,139)** | **(0.1%)** | **(0.1%)** | (3,846) | (0.0%) | (0.0%) |
| Impairment losses, net of reversal | **(35,200)** | **(0.3%)** | **(0.3%)** | (25,862) | (0.3%) | (0.3%) |
| Other gains or losses | **(5,669)** | **(0.1%)** | **(0.1%)** | (4,065) | (0.0%) | (0.0%) |
| Selling and distribution costs | **(495,524)** | **(4.7%)** | **(4.8%)** | (369,729) | (4.0%) | (4.2%) |
| Administrative expenses | **(1,091,148)** | **(10.3%)** | **(10.6%)** | (1,086,325) | (11.8%) | (12.3%) |
| Research and development costs | **(739,434)** | **(7.0%)** | **(7.2%)** | (567,313) | (6.1%) | (6.4%) |
| Other expenses | **(68,402)** | **(0.6%)** | **(0.7%)** | (81,742) | (0.9%) | (0.9%) |
| Finance costs | **(117,987)** | **(1.1%)** | **(1.1%)** | (99,069) | (1.1%) | (1.1%) |
| Share of results of investments accounted for using the equity method | **12,222** | **0.1%** | **0.1%** | 19,763 | 0.2% | 0.2% |
| Profit before taxation | **760,454** | **7.2%** | **7.4%** | 632,769 | 6.8% | 7.2% |
| Income tax expense | **(44,283)** | **(0.4%)** | **(0.4%)** | (71,462) | (0.8%) | (0.8%) |
| Profit for the year | **716,171** | **6.8%** | **6.9%** | 561,307 | 6.1% | 6.4% |
| Profit for the year attributable to owners of the Company | **715,803** | **6.8%** | **6.9%** | 565,567 | 6.1% | 6.4% |

## REVENUE

In 2018, the Group's revenue was RMB10,585.013 million (2017: RMB9,243.684 million), representing a YoY growth of 14.5%. The Group's service revenue was RMB10,339.012 million (2017: RMB8,807.512 million), representing a YoY growth of 17.4%. The growth mainly came from increasing business from existing large customers and the high growth of cloud computing, big data, and Jointforce business.

TPG and IIG's revenue and proportion of total revenue in 2018 are as follow:

| | **2018** | **Weight** | 2017 | Weight | Growth Rate |
|---|---|---|---|---|---|
| | ***RMB'000*** | | *RMB'000* | | |
| TPG | **9,174,855** | **86.7%** | 7,858,648 | 85.0% | 16.7% |
| IIG | **1,410,158** | **13.3%** | 1,385,036 | 15.0% | 1.8% |
| Total | **10,585,013** | **100%** | 9,243,684 | 100% | 14.5% |

TPG and IIG's service revenue and proportion of the total service revenue in 2018 are as follow:

| | **2018** | **Weight** | 2017 | Weight | Growth Rate |
|---|---|---|---|---|---|
| | ***RMB'000*** | | *RMB'000* | | |
| TPG | **9,022,237** | **87.3%** | 7,615,969 | 86.5% | 18.5% |
| IIG | **1,316,775** | **12.7%** | 1,191,543 | 13.5% | 10.5% |
| Total | **10,339,012** | **100%** | 8,807,512 | 100% | 17.4% |

## COST OF SALES AND SERVICES

In 2018, the Group's cost of sales and services was RMB7,340.356 million (2017: RMB6,493.218 million), representing a YoY growth of 13.0%. In 2018 the Group's cost of sales and services account for 69.3% of revenue (2017:70.2%), representing a YoY decrease of 0.9%.

## GROSS PROFIT

In 2018, the Group's gross profit was RMB3,244.657 million (2017: RMB2,750.466 million), representing a YoY growth of 18.0%. The Group's gross margin was 30.7% (2017: 29.8%), representing a YoY increase of 0.9%. In 2018, the Group's gross profit accounted for 31.4% of service revenue (2017: 31.2%), representing a YOY increase of 0.2%. The increase in gross profit margin was mainly attributable to the significant increase in revenue from the Group's emerging businesses, which accounted for an increase proportion of total revenue, and the gross profit margin of emerging businesses was higher than that of traditional businesses.

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

1. Continue to enhance the company's overall technical capabilities and management level, strengthen its leading position in advantageous industries, improve the productization level of services, and continue to enhance the profit level of traditional businesses;

2. Jointforce will quickly expand the layout of the cloud software parks, promote the construction of the information center on the cloud, accelerate the platform transformation of the company, and use the sharing economy to gain new benefits;

3. Increase the proportion of revenue from emerging businesses such as cloud, big data, industrial Internet, and artificial intelligence, etc;

4. Actively deploy overseas markets and increase the proportion of overseas business revenue. The gross profit margin of overseas business is higher than domestic business;

5. Continue to increase the proportion of revenue from the Group's own IP solution business. The solution with own IP is reproducible and scalable, and has a higher gross profit margin.

## OTHER INCOME

In 2018, the Group's other income was RMB64.078 million (2017: RMB100.491 million), representing a YoY decrease of 36.2%. The main reason for this decrease is because of the decrease of government subsidies.

## OTHER GAINS AND LOSSES

In 2018, the Group's other losses were RMB5.669 million, (2017 other losses: RMB4.065 million). The main reason is because of the fluctuations in the exchange rate of the US dollar and Hong Kong dollar against the RMB during the reporting period.

## OPERATING EXPENSES

In 2018, the Group's selling and distribution expenses were RMB495.524 million, representing a YoY increase of 34.0% (2017: RMB369.729 million). The Group's selling and distribution expenses accounted for 4.7% of the revenue, representing a YoY increase of 0.7% (2017:4.0%). This increase is because during the reporting period, the Group increased its sales channel in the tier one cities for the government and enterprise market. Furthermore, the Group increased its oversea coverage and increased oversea sales and market investment.

In 2018, the Group's administrative expenses were RMB1,091.148 million, representing a YoY increase of 0.4% (2017: RMB1,086.325 million). The Group's administrative expenses accounted for 10.3% of the revenue, representing a YoY decrease of 1.5% (2017: 11.8%). Excluding the share option expense, in 2018, the Group's administrative expenses accounted for 9.8% of the revenue, representing a YoY decrease of 0.3% (2017: 10.1%), representing the improvement of the administrative efficiency of the Group.

In 2018, the Group's research and development (R&D) costs were RMB739.434 million (2017: RMB567.313 million), representing a YoY increase of 30.3%. The Group's R&D costs accounted for 7.0% (2017: 6.1%) of the revenue, representing a YoY increase of 0.9%. This increase is because the Group invested more into R&D in emerging businesses including Jointforce, cloud, big data and intelligent manufacturing, etc.

## FINANCE COSTS AND INCOME TAX

In 2018, the Group's finance costs were RMB117.987 million, representing a YoY increase of 19.1% (2017: RMB99.069 million). The Group's finance costs accounted for 1.1% of the revenue, flat with the same period last year. The main reason for the increase in finance cost is because of the increase in the actual interest on the convertible loan notes during the reporting period.

In 2018, the Group's loss from derecognition of financial assets measured at amortised cost was RMB7.139 million, representing a YoY increase of 85.6% (2017: RMB3.846 million). This was mainly due to the increase in non-recourse factoring costs during the reporting period.

In 2018, the Group's income tax was RMB44.283 million, representing a YoY decrease of 38.0% (2017: RMB71.462 million), the decrease in income tax was mainly due to the impact of the deduction of research and development during the reporting period, the overall tax rate will be stable in the future.

## OTHER NON-CASH EXPENSES

In 2018, the Group's amortization of intangible assets was RMB68.402 million, representing a YoY decrease of 16.3% (2017: RMB81.742 million). The Group's amortization of intangible assets accounted for 0.6% of the revenue, representing a YoY decrease of 0.3% (2017: 0.9%).

In 2018, the Group's impairment losses, net of reversal was RMB35.200 million, representing a YoY increase of 36.1% (2017: RMB25.862 million). This increase is mainly due to the use of the new financial instrument guidelines on 1 January 2018. The financial assets such as trade and other receivables and contract assets are recognized for impairment using the expected credit loss model.

## PROFIT FOR THE YEAR AND EARNINGS PER SHARE (EPS)

In 2018, the Group's profit for the year was RMB716.171 million, representing a YoY growth of 27.6% (2017: RMB561.307 million). The Group's profit for the year accounted for 6.8% of the revenue, representing a YoY increase of 0.7% (2017: 6.1%). The Group's profit for the year accounted for 6.9% of the service revenue, representing a YoY increase of 0.5% (2017: 6.4%).

In 2018, the Group's profit for the year attributable to the owners of the Company was RMB715.803 million, representing a YoY growth of 26.6% (2017: RMB565.567 million).

Based on the profit for the year attributable to the owners of the Company, the Group's EPS was RMB29.54 cents in 2018, representing a YoY growth of 25.2% (2017: RMB23.59 cents).

## SEGMENT REVENUE AND RESULTS

In 2018, the segment's growth of revenue, service revenue and results are as follow:

| | Revenue | | | Service Revenue | | | Results | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | Growth Rate | **2018** | 2017 | Growth Rate | **2018** | 2017 | Growth Rate |
| | ***RMB'000*** | *RMB'000* | | ***RMB'000*** | *RMB'000* | | ***RMB'000*** | *RMB'000* | |
| TPG | **9,174,855** | 7,858,648 | 16.7% | **9,022,237** | 7,615,969 | 18.5% | **795,281** | 715,660 | 11.1% |
| IIG | **1,410,158** | 1,385,036 | 1.8% | **1,316,775** | 1,191,543 | 10.5% | **133,064** | 132,835 | 0.2% |
| Total | **10,585,013** | 9,243,684 | 14.5% | **10,339,012** | 8,807,512 | 17.4% | **928,345** | 848,495 | 9.4% |

In terms of segment revenue, TPG's revenue and service revenue achieved a YoY growth of 16.7% and 18.5%, the main contribution to this growth came from the growth of large core customers including Huawei, HSBC, Tencent, Ping An, and etc. IIG's revenue and service revenue achieved a YoY growth of 1.8% and 10.5%. The main contribution for this growth came from the fast growth of Jointforce.

In terms of segment results, TPG's result achieved a YoY growth of 11.1%, lower than that of the revenue growth and service revenue growth, this is mainly due to the large investment in research and development of emerging businesses such as big data and intelligent manufacturing during the reporting period. IIG's result achieved a YoY growth of 0.2%, almost the same as that of last year.

The Group believes that after years of building foundations for Jointforce, cloud, big data, and other emerging businesses, these businesses are ready to enter into a fast growth and expansion phase, which will provide the drive for the Group's revenue growth and increase the Group's profit margin.

## FUNDRAISING ACTIVITIES

During the current reporting period, no fund raising activities had been conducted by the Group. The details of several fund raising activities which had been conducted by the Group in last reporting period are summarized as below:

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

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

| | Intended use of proceeds | Actual use of proceeds |
|---|---|---|
| (i) | Approximately HK$600,000,000 for mergers and acquisitions and establishing an M&A fund to upgrade new technological capability and strengthen the ecological construction of the cloud services | Approximately HK$43,000,000 were used to upgrade new technological capability and approximately HK$557,000,000 not yet utilised as at 31 December 2018 |
| (ii) | Approximately HK$100,000,000 for upgrading the Jointforce to forge a comprehensive platform for the IT industry chain | All used as intended during the year ended 31 December 2017 |
| (iii) | Approximately HK$200,000,000 for replenishing the Company's working capital and repaying certain bank loans with relatively higher interest rates | All used as intended during the year ended 31 December 2017 |

As at 31 December 2018, a maximum number of 180,000,000 ordinary shares will be allotted and issued upon full conversion of 2017 CN at the initial conversion price of HK$5.00 per conversion share.

## CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Group has complied with the CG Code from 1 January 2018 to 31 December 2018, except that (i) the roles of chairman and chief executive officer were performed by the same individual. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group. (deviated from code provision A.2.1 of the CG Code); (ii) the nomination committee should be chaired by the chairman of the board or an independent non-executive director. Since Dr. Leung Wing Yin Patrick retired from office as the independent non-executive director at the annual general meeting of the Company held on 18 May 2018 (the "2017 AGM"), he also retired as chairman and member of the nomination committee of the Company, resulted in the vacancy of the chairman of the nomination committee (deviated from code provision A.5.1 of the CG Code). As Dr. Lai Guanrong was subsequently appointed as the chairman of the nomination committee of the Company on 15 August 2018 in order to replace the vacancy, such deviation from the code provision A.5.1 of the CG Code was rectified; (iii) independent non-executive Directors and other non-executive Directors, as equal Board members should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors and non-executive Directors of the Company were unable to attend the Company's 2017 AGM due to their respective business engagement. Other Board members who attended the 2017 AGM were available to answer questions to ensure effective communication with the shareholders (deviated from code provision A.6.7 of the CG Code).

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

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules relating to dealings in securities. In response to a specific enquiry by the Company, the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

## COMPETING INTERESTS

As at 31 December 2018, 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.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the open market a total of 22,078,000 shares of the Company at a total consideration of approximately HKD86,842,000.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

## AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 2 June 2003 and amended its written terms of reference on 28 March 2012, 31 December 2015 and 9 January 2019 to comply with the requirements in the CG Code. The terms of reference of the Audit Committee, a copy of which is posted on the website of the Company and the Stock Exchange, are in line with the provisions of the CG Code. The Audit Committee is mainly responsible for reviewing and supervising the Group's financial reporting and internal control system. The Audit Committee met at least on a semi-yearly basis during the year ended 31 December 2018.

During the period from 1 January 2018 to 18 May 2018, the Audit Committee comprised three independent non-executive Directors namely Dr. Leung Wing Yin Patrick as the Chairman of the Audit Committee and Mr. Zeng Zhijie and Dr. Lai Guangrong as the members of the Audit Committee. Since Dr. Leung Wing Yin Patrick retired on 18 May 2018 at the 2017 AGM, the number of Audit Committee members fell below the minimum number as required under Rule 3.21 of the Listing Rules, and none of the Audit Committee members have appropriate professional qualifications since 18 May 2018 until the appointment of Professor Mo Lai Lan as an independent non-executive Director and the chairman and a member of the Audit Committee with effect from 15 August 2018, the Audit Committee has then fulfilled the requirements under the Listing Rules.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2018 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.

## FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of HK$0.0215 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2018. The proposed dividend payments from share premium account of the Company are subject to approval by the shareholders of the Company at the annual general meeting to be held on Monday, 20 May 2019 at 3:00 p.m.. Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid on Wednesday, 12 June 2019 to shareholders whose names shall appear on the register of members of the Company on Friday, 31 May 2019.

## CLOSURE OF REGISTER OF MEMBERS

(a) For the purpose of determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 15 May 2019 to Monday, 20 May 2019, both days inclusive. In order to qualify as shareholders of the Company to attend and vote at the AGM, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 14 May 2019.

(b) For the purpose of determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 31 May 2019, both days inclusive. In order to qualify for the entitlement to the proposed final dividend, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 28 May 2019.

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is proposed to hold on Monday, 20 May 2019 at 3:00 p.m.. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement has been prepared in English and Chinese respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with International Financial Reporting Standards, where the English version shall prevail. This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinasofti.com). The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
**Chinasoft International Limited**
**Dr. CHEN Yuhong**
*Chairman and Chief Executive Officer*

Hong Kong, 20 March 2019

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

* *For identification purposes only*