ANNUAL REPORT 2018

Chinasoft International Limited
中軟國際有限公司*

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

* for identification purpose only

Contents

Corporate Information

THE BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Leong Leung Chai Florence

AUTHORISED REPRESENTATIVES

Dr. Chen Yuhong
Ms. Leong Leung Chai Florence

AUDITOR

Deloitte Touche Tohmatsu

WEBSITE

www.chinasofti.com

STOCK CODE

SEHK Code: 0354

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

Dear Investors,

In 2018, despite facing unfavorable conditions of increasing external macro factors and downward pressure on the economy, the Company carefully analyzed and responded positively, achieving the 15th consecutive year of growth since its listing and continued to lead the domestic software service industry.

"In our fight of 2019, we will confront the challenges and demonstrate excellent value!" This is the keynote that the Company has agreed upon during the recent group retreat. We will provide not only RMB10 billion worth of services, but they will be of quality and meaningful work for our clients. We will continue our goal to become one of the top 10 software service providers and a global leader in information technology services. We will do what we've said, say what we've done, remain determined, face the challenges ahead, and stick to our final blueprint!

During the reporting period, the Company's different business lines followed the strategic blueprint and acted accordingly. The main developments are as follows:

1. SPEED UP THE ROLL OUT OF OUR DIGITALIZATION SERVICES, FOCUS ON CLOUD SERVICES, AND RENEW TRADITIONAL BUSINESSES

The Company has always viewed strengthening its cloud service capabilities as a key focus during this strategic transformation. The Company was Huawei's first "Sailing on the Same Boat" partner. During the reporting period, the Company was awarded as "Huawei Cloud's Top Partner" and recognized as a pioneer for "Huawei Cloud for AI" as the two parties worked more closely. During the reporting period, the Company was introduced into Microsoft's "Partner-Led" strategy. The Company will pour more resources into Azure (smart business directions) and increase the scope of its collaborations globally in the AI voice recognition system. Furthermore, Ms. Gavriella Schuster, Senior Vice President of Microsoft Global Partner, was appointed as a non-executive director of the Company. She will help the Company to expand its Microsoft business.

Cloud service is not only the accelerator of digitalization, but also the connector of traditional IT services to new and emerging IT services. Base on this information, the Company's cloud management capabilities continued to improve during the reporting period. In China, the Company worked closely with Huawei Cloud and expand its cloud consultation, cloud migration, cloud maintenance and other core cloud management services. The Company, in the process of real project implementation, accumulated DevOps and cloud native application capabilities, and achieved breakthroughs in AI, IoT, and other new cloud technologies. We were highly approved by our clients. In the U.S., Catapult announced "Azure Management Services (AMS), its subscription solution product. The subscription revenue more than doubled, and Catapult was awarded for 16 Microsoft capabilities, and became a smart professional service provider for Azure, Microsoft 365, and Dynamic 365.

Currently the Company is in the process of building a Cloud and Intelligence Group known as the CIG. The purpose is to integrate the Company's cloud service capabilities, and through it, renew our original business and realize upgrading of our services. The Company will leverage its ecosystem capability to build its cloud services (consultation and service platform) and grow along with our customers. The Company will, through cloud, establish its enterprise business based on platforms and ecosystems.

2. **ENHANCING DIGITALIZATION CAPABILITIES AND JOINTFORCE'S "CLOUD INTEGRATIVE SERVICE" ENTERS INTO PROMOTIONAL PHASE**

During the reporting period, JointForce launched its "Cloud Integrative Service" to meet the software demand of the Government. This service includes "Internet + software transaction service, ADM management service, and big data of the software service provider in the ecosystem. "Cloud Integrative Service" has piloted in Nanjing and Xi'an and has officially entered operational phase since. There are more than 3000 registered government units and has accumulated over RMB100 million worth of service projects.

Through the "Internet + software transaction service" business model of the "Cloud Integrative Service", the IT service procurement cycle below the government limit is shortened by 30%, online asset management is more standardized, and the overall management efficiency is significantly improved. The end-to-end service model from procurement to delivery is realized, and the capabilities and value of data services are further highlighted. Furthermore, we have signed strategic contracts with Baiyun District of Guangzhou, Yu Bei District of Chongqing, Zhenjiang of Jiangsu, and other regional government to onboard them to this service. This brand-new model is being quickly recognized, implemented, and promoted, and we are more confident with the JointForce platform than ever. It will succeed!

3. **LANDING NEW TECHNOLOGY APPLICATION IN DIFFERENT SCENARIOS AND ACCELERATE STRATEGIC COOPERATION AND BUSINESS LAYOUT**

In the field of AI, the Company achieved strategic partnerships with Huawei and Baidu. The Company announced its industry-based AI solutions, leveraging the years of industry experiences, and implemented AI scenarios in banking, securities, insurance, retail, education, and other industries. The results of these scenarios were positive. During the reporting period, the Company reached a strategic partnership with the Nanjing Turing Artificial Intelligence Research Institute and Academician Yao Qizhi to establish the JointForce Turing Research Institute. This institute is aimed to increase the speed of the evolution of artificial intelligence. Furthermore, the Company also participated in the investment of the Turing Technology Fund, incubating projects and enterprises in the field of artificial intelligence. Combining capital with actual implementation, the Group further deepens its layout in the field of artificial intelligence.

During the reporting period, the Company accelerated its strategic blueprint in the smart manufacturing industry. The Company has reached strategic cooperation with Bosch, Forcam, ESI, Phoenix Contact, Haier, Fast, and NARI in the field of industrial Internet platforms. In the field of virtual prototyping, we moved ESI's virtual prototyping solution onto the cloud and exported to a large number of Chinese manufacturing companies through cloud deployment. We also used the JointForce platform to build an ecosystem of industrial simulation applications. In the field of industrial diagnostics, we introduced Bosch's diagnostic capabilities, built intelligent manufacturing innovation centers and research institutes in Nanjing, Chongqing, Kunshan, etc., provided diagnostic services and digital transformation services and integrated solutions for nearly a thousand companies. We will continue our path for practical smart manufacturing implementation as we move towards a core integrator of "Made in China 2025".

Dear investors, as a software service enterprise with annual sales of over RMB10 billion, in the face of the uncertainty of the external environment and macro factors, we will insist our core value "be truthful and persevere always". We are strong enough to meet the new challenges faced in the new situations. We will constantly improve ourselves and grow alongside with our customers. Which is why although we were fortunate enough to join Huawei's "Supplier Development (SD)" program as a premier service provider, we will not be satisfied with only improving our service capacities towards Huawei. We will learn from the master and the best (Huawei), and set a small goal of not just accomplishing RMB10 billion worth of revenue, but RMB10 billion worth of meaningful and quality work. The Company will fulfill all the requirements of the SD program, invest resources to improve software engineering capabilities, improve company culture and management system. We will use the standards of the SD program as the standards of all our lines of business to improve ourselves. During this process, we will not be afraid if we learn slowly from Huawei as long as we struggle to address our weak links. We will reach a new phase in three years, ultimately becoming a pioneer in the development of the industry.

During the reporting period, we successfully hosted the second "Global Programmer's Day" for more than 6 million programmers and 30,000 key software enterprises. With the theme of "pragmatic innovation" and "scientific spirit", we will inspire the digital enthusiasts' innovative enthusiasm and scientific spirit, release their energy and creativity, and meet the challenges of the new era!

Looking back at the keynote that we will "confront the challenges and demonstrate excellent value" and our goal to become "one of the top 10 software service providers and a global leader in information technology services" raised at the executive retreat, we look up at the sky, and are not afraid of any challenges. We will remain pragmatic and practical, and focus on the fundamentals. As we see uncertainties have already become certain obstacles, we are more at peace, confident, and resolute to get by them.

"Go into action, and we will not give up until we reach our goal!" – In the year of 2019, Chinasoft will dive head first into new challenges and march bravely forward!

Chairman
Chen Yuhong
Spring 2019

Business Overview

(I) DEVELOPMENT HIGHLIGHTS

- In 2018, the contract volume of JointForce was over RMB2.8 billion, the hosting code lines of our platform broke through 1 billion, completed digital profiling of 13,000 software enterprises in top 50 cities in China's GDP, and provided supplier big data services; Sign strategic cooperation agreements with the governments of Nanjing, Xi'an, Guangzhou, Chongqing and Zhenjiang to provide "Cloud Integrative" service and built "Internet + Software Transaction Service Platform" for the government informationization, in which the amount of service projects exceeded RMB100 million.

- Penetrating into intelligent manufacturing business through business diagnosis strategy has progressed rapidly. The Group has reached strategic cooperation with Bosch of Germany, FORCAM of Germany, ESI of France, Haier, Phoenix Contact of Germany, Fast Group and NARI in the field of industrial Internet platform; Work with China Information Technology Industry Federation to promote "Industrial Software International Cooperation Industrial Base" construction; Based on "Honeycomb" industry Internet enabled platform, provided diagnostic, digital transformation services and integrated solutions for thousand manufacturing enterprises.

- The Group's cloud business is fully developed, with high-speed growth, and rapid improvement of cloud management services capacity, including cloud consultation, cloud migration, cloud implementation and cloud operations. The Group continued to accumulate DevOps and cloud native application services capacity. AI, IoT and other new cloud technology capacity achieved breakthroughs. In the Chinese market, the Group has fully cooperated with Huawei cloud as a "sailing in the same boat" partner, established more than 60 cloud services based on Huawei cloud in the catalog, and worked with China's largest dairy company, world-renowned commercial vehicle company and large communication tower infrastructure service company, migrate 3,300 hosts, nearly 1,000 of databases, and nearly 3,500 TB of data volume, to construct the future sustainable development and long-term profitability. In the U.S. market, the Group's wholly-owned subsidiary Catapult officially launched its subscription-based solution product "Azure Management Services (AMS)", offering cloud consultation, cloud management, cloud architecture and professional implementation services based on Microsoft Azure. Catapult doubled its revenue from subscription services, and became a professional service provider with the expertise in Azure, Microsoft 365 and Dynamics (Microsoft's cloud intelligent products). Catapult has 16 of 17 Microsoft capabilities certification and was named Microsoft's US Partner Award Winner for 2018 Azure Compete.

- The big data business continued to grow at a highspeed while consolidating existing advantages in the financial industry. The Group's forward-looking industry vertical services including data architecture, data platform, data services productization capabilities have been greatly enhanced. Furthermore, in the airport, traffic card, government big data and other new entry business maintained rapid growth. The Group provided big data services for Beijing's new airport, Wuhan Tianhe International Airport, Western Airport, Jiangsu Transport Department, Beijing Transport Department and Changping District Government. Lastly, the Group continued to expand its service areas, which has newly developed high-tech, automotive and other high-potential manufacturing industry customers.

- A breakthrough has been made in the application of artificial intelligence ("AI") technology. Relying on AI platform such as Baidu, Huawei, combined with industry demand, the Group applied AI technology to form AI industry application solutions, and achieved a number of application scenarios in finance, retail and other industries. The Group and the Turing AI Institute of Nanjing led by Academian Yao Qizhi, jointly built the JointForce-Turing Research Institute in order to accelerate the transition process of AI technology. The Group participated in the investment of Turing Technology Fund, integrating the technologies with capital, to deepen the Group's layout in the field of AI.

- The Group has become a "strategic supplier" of Huawei through its "Supplier Development (SD) Program". The Group has fully launched Digital CSI plan to improve its support system of Group culture, human resources and IT systems, to also improve its software engineering capabilities, and to enhance service quality and value of mature business including Huawei, HSBC and Tencent. The Group will strive to achieve SD implementation standards for all of its businesses.

(II) CORPORATE STRATEGY

1. Traditional areas of focus: Focus on Large Customers, Implement SD Standards, Improve the Quality, and Value of Services

The Group was founded nearly 20 years ago, the technical service and the solution is the Group's traditional and mature business. The revenue mainly comes from the long-term cooperation with strategic large customers, such as Huawei, HSBC, Microsoft, Ping-An, Tencent, Ali, Baidu, China Mobile, China Telecom, Bank of Communications, and etc.

On the occasion of RMB10 billion revenue breakthrough, facing the uncertainty of external environment, the Group re-examined the traditional business and determined the development goal of providing quality service and valuable service to big customers. As Huawei's preferred provider, the Group successfully entered Huawei's "Supplier Development Program" (SD) in the first half of the year. The plan, launched by Huawei, aims to help Huawei's suppliers to become trustworthy strategic partners, just as BT helped Huawei more than a decade ago. Learning from the masters and observing the sages, the Group will not only strive to grow into a strategic supplier of Huawei, but also seize this excellent opportunity of SD to drive business development, fully meet the requirements of the SD criteria, invest resources to make up for the shortfall, and enhance the service quality and service value of the Group, finally reaching the industry-leading level.

2. **Emerging areas of focus: Focus on New Technology, Accelerate Digital Transformation, Aggregate Ecosystem, and Lead Innovation**

JointForce: Aggregate resources, empower enterprises, and build an industrial Internet platform in the field of software development

From the current situation of the industry, software development is faced with many problems, such as long acceptance cycle, large amount of development, low code reuse rate, unsuitable resources for both supply and demand, etc. The software industry itself also needs to be transformed into the Internet. It is necessary to link all parties of ecological chain to an Internet platform of software industry to realize high efficiency and universal benefit. JointForce platform carries the new mission of high-quality development.

The JointForce platform has been officially commercialized for three-and-a-half years, which has formed a cloud ecosystem focusing on software development, accumulated a great deal of ecological resources, and the "Cloud Integrative" service for government informationization has completed the mode verification and entered the application promotion stage. In the future, JointForce will continue to improve its business model, improve its digital operation capacity, speed up the optimization of its service system, to integrate transactions, services and data, to build an industrial Internet platform focused on software development, build a new ecological software industry, and explore a new blue sea of digital economy.

Cloud Computing: A Full-Fledged Cloud Management Service, and Accelerate the Digital Transformation

Cloud computing is the fastest-growing field of information technology in recent years, with the most deterministic industrial chain, which has become the accelerator of digital transformation. The Group's cloud business is globally distributed and sustained, with the aim of becoming the first-tier of cloud management service provider for Microsoft Azure Cloud and Huawei Cloud in China. The Group continuously builds cloud management service ability in three levels: at the basic service level, consolidate and strengthen the cloud consultation, the cloud migration, the specialized implementation, the cloud maintenance, the cloud training and other basic service abilities; At the DevOps level, build cloud-based DevOps and cloud native application service capabilities; At the new technology application level, explore to build cloud service capability based on AI and IoT, in order to achieve new growth.

In addition, the Group, based on the cloud service practice since 2013, has superimposed the technology and solution service capability accumulated in many industries, forming education, retail, finance, government, manufacturing and other industries cloud application solutions, and has continued to promote mature business SaaS transformation.

Big Data: Break Through the Bottleneck of Data Value, and Become the Data Craftsman in the Era of Artificial Intelligence

International Data Corporation (IDC) predicts that the market for big data and analytical technologies will increase from USD130.1 billion in 2016 to USD203 billion by 2020. The increasing demand for data availability of enterprises, the emergence and development of new generation technologies such as artificial intelligence and blockchain, and the cultural transformation brought by data-driven decision-making will continue to stimulate market demand for big data and analytical technology services.

The Group has built the advantages of cross-industry big data service capability, established the big data service team, developed the independent software platform of big data asset management, accumulated the cross-industry consulting implementation methodologies, established strategic cooperation relations with internet leaders such as Baidu and successfully achieved technology implementation such as AI in application scenarios, and built “end to end” service capacity. In the future, the Group’s big data will continue to lead the technological transformation, sticking to the “focus on the industry” and “deep dive into solutions” strategy, continue expanding its cooperation in financial filed to consolidate the leading position, and focus on the development of industry-oriented data platform planning and data services production; In the industry with high-speed growth, such as airports, all-in-one cards, government big data and other areas, the Group will deep dive into solutions, strive to create new advantages of the industry; In other areas, the Group will target high-potential industries, continue to expand high-tech, automotive and other manufacturing industry customers. The Group aims to provide customers with all aspects of data services and decision-making support, to help customers build a solid enterprise-level data infrastructure, and benefit from new data dividends in the enterprise digital and artificial intelligence era.

Intelligent Manufacturing: Universal Services, Bring Small and Medium-Sized Manufacturing Enterprises into the Intelligent World

“Made in China 2025” is the first ten-year plan of action for the Chinese government to implement its strategy of manufacturing a powerful country. According to relevant data, China has initially built more than 200 digital workshops/intelligent factories, and the domestic intelligent manufacturing market is expected to exceed RMB220 billion by 2020.

The Group followed the development orientation of "Made in China 2025" Core Integrator, develops the core industry software, formed the universal manufacturing service for small and medium-sized enterprises, brought the small and medium-sized manufacturing enterprises into the intelligent world, and builds the intelligent manufacturing brand. For this, the Group and Huawei jointly release "intelligent cloud" solutions, and in the field of industrial Internet platform, expand the strategic cooperation with Bosch of Germany, FORCAM of Germany, ESI of France, Haier and other well-known enterprises, in accordance with the steps of "Diagnose first, enable, then operate", to create "Honeycomb" intelligent manufacturing business panorama: First of all, take diagnosis as the entrance to service small and medium-sized intellectual enterprises, connecting the vast number of target enterprises; Then, introduce and upgrade product capabilities of cloud-based SaaS products for general service enterprises; Finally, help the government to operate with the portrayal data of the connected enterprise, and realize the end-to-end integration of industrial supply chain and the horizontal integration of ecological chain by means of industry 4.0 interface. After the accumulation of practice in recent years, the Group's diagnostic services are booming, industrial simulation SaaS products are about to be introduced, "cloud" ecological effect is emerging, intelligent business has a scale, along the established strategic route of rapid progress.

3. Global Layout: Focus on Internationalization, Rely on the "Belt and Road" to Speed Up Layout and Leapfrog Development

The "Belt and Road" major development strategy is in essence the systematic upgrade and output of the experience of urbanization with Chinese characteristics, and it is an important strategic opportunity driven in parallel in many fields. Almost all the countries along the "Belt and Road" have put forward their national digital plan, which can integrate, drive and promote the urbanization process of each country. Digital "Belt and Road" is a huge business opportunity for an integrated solution to output "Digital China".

The Group now provides service to Huawei, HSBC, Microsoft, GE and other top 500 customers in the world for a long time, and has provided information technology services to customers in 32 countries. The Group has accumulated a large number of international customer service experience. With the help of digital "Belt and Road", the Group will work with Huawei for products and industries to speed up the pace of overseas distribution and continue to increase cooperation and perfect layout on the basis of existing global strategic centers such as China, the United States, Mexico, Romania, Japan, India and Malaysia. In the future, the Group will build global center in Russia, Egypt and so on, complete global full-service basic layout with cloud drive digital transformation service, and become world-class ITS enterprise, to build the Chinese influence in the global IT world.

(III) BUSINESS LANDSCAPE

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. The technical services mainly involve IT solutions and outsourcing services, including ITO, BPO, EPO, and more. The Group's customers are in industry sectors that possess high IT growth potentials, including finance, telecommunication, government and manufacturing, high technology, and etc. The Group owns more than 300 software copyrights and patents and the customers are located in China, United States of America, and Asia Pacific region.

i. Technology Professional Services Group (TPG):

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

ii. Internet IT Services Group (IIG)

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

1. **Segment Description**

i. **Introduction of TPG Business**

TPG provides large customers and industries with technological services and solutions that require the Group's experienced project management skill sets, human resource capabilities, and control of certain specific resources. The Huawei and financial lines of business are TPG's leading ("fist") lines of business.

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

- **Software Platform Products**

  The Group currently has two series of proprietary software platform products, the Resource-One and TopLink/TSA+. The Group integrated the concept of "Products are services and services are products" into the design structure of these products, which also allows the Group to find a balance between stability and changing market demand.

  The Group's Big Data middleware (Ark) is a one-stop, big data scenario development platform in the big data market that encapsulates the technical details of the current mainstream data technology framework (such as Hive, Hbase, HDFS, Spark, and etc.) The platform can help enterprise users to quickly visualize and create a big data processing process, help companies quickly migrate existing data to large data technology system, and to enjoy the big data technology for data processing to bring forth new changes. In addition, based on big data business practices, the Group has accumulated data asset management DAM products, operational risk and internal control GRC products, market risk products and banking regulatory product families, covering anti-money laundering monitoring and customer risk ratings, off-site supervision, and finance in more than ten business scenarios, including statistical supervision, bank card overseas transactions and credit information access, are dedicated to building platform tools that cover the entire life cycle of data, adaptable business management processes, and user experience, and build enterprise-level data assets for customers. This provides a strong guarantee for customers to build enterprise-level data assets and mine data values.

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

  Consulting services sit at the top of the business value chain of the Group. By providing strategy and business consulting services, the Group help its customers to realize digitalization, realize more value, and reach its goal of "growing alongside customers". The Group's consulting products and services are based on a rigorous and proven scientific method and frameworks. In the areas of business processes, technology and outsourcing, the 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.

- **Big data Products and Services**

  The Group's big data business is positioned at the enterprise-level data engineering service, providing consulting and evaluation for the data infrastructure (data center, data platform) and application construction of large and medium-sized organizations in financial institutions, government, transportation, manufacturing and other industries. The Group provides end-to-end data engineering services and products including data asset management and value operations.

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

- **Industry and General Application Software and Solution Development**
  The Group provides customers in different industries with end-to-end process services that include industry and general application software and solutions. The Group uses Resource-One application supporting platform to penetrate through the entire project cycle of "Planning – General Design – Development – Overall Integration – Operation and Maintenance", in which the integration methodology of the 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 into 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 up with 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, the Group's COE ensures a unified technological architecture and quality, thus effectively increasing repeat usage as well as reducing development time and costs.

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

  ➢ In the operation and maintenance phase, the Group's platforms, application software and solutions have been adopted 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.

- **Mobile Internet Products and Services**

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

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

- **Product Engineering**

  The 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 includes 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 specialized products and services, including product design, development, and quality assurance and testing.

- **Application Development and Management Services**

  The Group focuses on specific industry client demand and offers application development and management services such as application software development, system maintenance and system optimization. The Group's ADM services were designed to help customers realize the scientific management of spending in IT outsourcing, enabling customers to focus more on their core competencies. The 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.

- **Enterprise Application Services**

  The Group provides consulting-driven enterprise application services and proposes application service solutions to help customers improve their management and support their customers. The Group's enterprise application services cover a wide range of mainstream ERP systems and e-business suites, including enterprise resource planning (ERP) systems, customer relationship management (CRM), supply chain management (SCM), and enterprise application integration (EAI). The Group's specific services include packaged software implementation, custom development, maintenance and product version upgrades, and business intelligence (BI) data warehouse (DW).

- **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. Together with other services, the Group covers the entire life cycle of information systems, ensuring smooth construction and operation of medium to large information systems.

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

  The 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.

ii. Introduction of IIG Business

IIG is the Group's "online" business. It is mostly conducted through the Jointforce platform. Jointforce is a software ecosystem cloud platform, transaction platform, service platform, and data platform established under the trend of "software defined world". It focuses on providing customers with fast and good software services and creating a software service ecosystem.

- **JointForce**

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

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

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

  The Group launched the "Cloud Integrative" service platform with Jointforce at its core in order to provide online procurement transaction services, project lifecycle management ADM butler services, and supplier big data services for government IT service projects. "Cloud Integrative" service can shorten the government procurement cycle, standardize software asset management, improve management efficiency and delivery quality, and achieve intensive construction of government information projects.

- **Cloud Migration and Operation Services**

  The Group has been carrying out technical services including light cloud migration, independent host migration, system configuration, software configuration, data backup, data transfer, system configuration and other cloud management services. It also provides long tail services including maintenance services for its users. These services will in the future continue to expand and provide long term profitability for the Group.

- **Cloud Consulting and SaaS Services**
  For digital transformation opportunities brought by new technologies such as cloud computing, the Group provides cloud consulting services and customized services based on strategic cooperation with Huawei Cloud and Tencent Cloud. The Group also has the ability to serve Microsoft Azure Cloud in the US market. The Group's services include professional implementation, technology services, DevOps, cloud native application services, as well as cloud services based on new technologies such as AI and IoT. The Group will bring customers a world-class security and compliance cloud computing service experience.

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

- **Cloud Solutions**
  The Group took full advantage of multiple solutions and servicing experiences accumulated over the course of 10+ years to fully understand the cloud service 2.0 era's go to market characteristics. The Group will continue to develop cloud solutions in finance, retails, government, manufacturing logistic, transportation, public services and other industries.

- **Training Business (Excellent Training Center/ETC)**
  The Group's ETC is an IT training base for undergraduates certified by the Ministry of Education of China. It is a world-renowned high-end IT technology training brand. Through the cooperation with colleges, universities or related majors to provide students with job-based training. Through the form of social recruitment to recruit computer-related professional graduates to carry out skills training and project practical training.

2. **Industry Verticals**

The Group has strong presence in the following industry verticals:

i. **Financial Services and Banking**

Based on different 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 industry. The Group has a long history of providing industry solutions, system integration services and related high-end services for its key customers including five major state-owned banks, postal savings banks, a number of joint-stock commercial banks and city commercial banks, as well as foreign-invested financial institutions in China. The Group accumulated extensive experience in industry application and achieved "Three Firsts" in China – the first inter-bank bankcard payment network system, the first financial IC card payment and clearing system and the first e-commerce online payment and settlement system. In particular, the "electronic funds transfer and retail banking application system" was recognized as one of the outstanding projects of the fifteenth National Torch Program. The Group expanded into HSBC's oversea market, and explored new customers including Citi bank, Hang Seng Bank, and other foreign banks. Furthermore, the Group established a Malaysian team, creating a foundation for global blueprint.

According to the IDC market research report, the Group's payment and clearing market and bank card system in the banking industry are ranked in the top five for many years. The ability of business consulting and solutions in Internet finance is highly recognized by customers.

ii. **Insurance and Securities**

Based on years of industry experiences and its strong technical teams, the Group continued to expand vertically into the insurance and securities industry and built positive relationships with its customers. The insurance business, based on years of industry experience and a strong consulting, solution and technical team, is actively participating in the establishment of insurance factor standards and industry data governance in the industry regulatory side, establishing in-depth cooperation with major customers in the industry.

For the core insurance business system, the Group developed leading insurance sales channel management and marketing support and formed an entry barrier with its advantageous technologies including insurance big data, AI, insurance risk management, insurance financial management, and etc. The Group's insurance big data, AI, insurance sales channel management and marketing support have a clear market leading position. For securities business, the Group has established technological advantages in important and innovative fields such as the formulation of industry data standards, core clearing, bills and interest rate swaps, next-generation transaction monitoring, risk control, and big data infrastructure, and supporting data management and control. The Group achieved remarkable results in regulatory big data transaction, risk management, and other smart regulations, wining the trusts of clients and standing out within the industry with its comprehensive capabilities. The Group, as an important participant of financial IT services and pioneer of more segmented businesses, will help securities clients built technical advantages and provide clients with the best comprehensive, or "until the last mile", services.

iii. **Telecommunications and Internet**

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 and development, and operation and promotion services such as mobile payment, mobile instant messaging, mobile SNS, enterprise mini blog, mobile application stores, PTT (push to talk intercom phones), embedded browser, mobile advertising platform, etc. Through development of products for Fetion of China Mobile, the Group has a solid foundation in the field and will promote integrated communication strategy for China Mobile.

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

iv. **Manufacturing Logistics**

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

The smart manufacturing cloud is based on the standard model of a smart factory and uses a SaaS model to serve the government related industries, manufacturing companies, society and consumers. It is a combination of "smart industrial applications" that supports the development of urban industries and enterprises. The Group, with the goal of Smart Manufacturing Cloud to increase industry upgrade transformation and "value change" capabilities, developed a smart industrial ecosystem to provide new technological applications, based on cloud computing, big data, and mobile IoT, in research and development, design, process, processing, logistics and the full-service process. There are three major service advantages with this. First, to integrate all the ecosystem resources and promote resources sharing for all manufacturers and their supply chains. Next, through the new PaaS platform (facing the "new manufacturers), to build a rich industry template datable to support the development of different manufacturing applications and needs. Lastly, to use industrial diagnostic cloud, cloud MES, cloud PDM, cloud ERP, cloud real-time site management, and other SaaS applications to support the implementations of the solutions.

The Group, using its smart manufacturing cloud as foundation, has started working with local governments in Jiangsu, Chongqing, etc. to collaborate with their smart manufacture demonstration zones. The Group will, through the establishment and operation of the smart manufacturing cloud platform, promote the "establish pioneering manufacturing bases that are globally competitive" initiatives, to help manufacturers realize digitalization, smart evolution, and help built said bases faster, promoting true smart manufacture transformation.

v. Hi-Technology

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

The Group 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).

At the same time, Catapult, a subsidiary of the Group, is one of Microsoft's 32 Solution Providers (NSPs). Its business experts cover all of Microsoft's products and became a vendor with Azure, Microsoft 365 and Dynamics 365 Microsoft cloud products. In 2018, Mrs. Gavriella Schuster, Senior Vice President of Microsoft's global partner company, became the Group's non-executive director, further strengthening the Group's strategic cooperation with Microsoft to serve Microsoft's global customers.

vi. **Government and Large 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 Resource-One, undertaken a number of key national technological projects. As the 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 Resource-One was recognized by CCID as the top brand among e-government application support platform products in China, establishing a comprehensive leading position in e-government. According to IDC market research, the Group has maintained among the top three in the overall rankings in the market of government industry solutions for a number of consecutive years.

vii. **Public Service**

Through years of professional experience accumulation, the Group maintained the leading market position in public transportation, railway transportation, airports, and other related transportation related solutions market. The Group three "firsts". The first nationwide "one card access" payment and clearing system, ticket exchange payment and clearing system, and AFC system (automated fare collection system with proprietary IP). The Group provides its transportation clients with AFC system, ACC system, rail transportation project management, smart transportation, airport operation management system and other solutions, professional application integration and operation and maintenance services. The Group's ACC system takes the majority of the market share in China. The Group provides security management, material management and big data and development services to a number of airport and port customers.

In the energy sector, the Group maintained its "Provide Value Add Services for Its Customers" belief, and through a series of partners, formed partnerships with key clients in subsectors including power generation, power grids, and mining, providing them with industry specific solutions, professional management, and management solutions. The Group independently developed the power industry products, supported by a professional team and excellent operational system, and joined Huawei to expand the market in the fields of power marketing and production management.

(IV) MAJOR ACCOMPLISHMENTS

- **JointForce (JF) – Software Eco-Cloud Platform**

The JointForce Platform focuses on providing customers with “more, faster, better and convenient” software services, with the continuous upgrading and optimization of services content and capabilities and the continuous evolution and upgrading of business models, JointForce expanded its resources to more than 400 cities (districts and counties). JointForce has more than 420,000 engineers, more than 20,000 service providers and 55,000 contracting companies . In 2018, contract value amount was over RMB2.8 billion. JointForce formed a cloud ecosystem focusing on software development field, and have made significant progress in the demand side, supply side and platform construction.

On the demand side, JointForce is based on the “Cloud Integrative” service platform to connect the government’s software service demand, and relies on the “Honeycomb” industry Internet enabled platform to connect the software service demand of the manufacturing industry and gather IT solutions of the intellectual manufacturing industry, building the ecosystems of the government and enterprise.

During the reporting period, JointForce launched the “Cloud Integrative” service for government informationization, and built an “Internet+software transaction service platform”. It has signed strategic cooperation agreement of “Cloud Integrative” services with the governments of Nanjing, Xi’an, Baiyun District of Guangzhou, Yubei District of Chongqing and Zhenjiang. The “Cloud Integrative” platform registered more than 3,000 government units, with 263 cumulative service projects, and the amount of service projects exceeded RMB100 million. Among them, Nanjing and Xi’an have completed the “Cloud Integrative” pilot verification and entered the formal operation stage. The “Cloud Integrative” platform supports supplier selection and bottom line management through massive digital resources-based supplier big data services, achieving the goal of “finding the most suitable enterprise in the shortest time”. This has shortened the procurement cycle by 30%. The “Cloud Integrative” platform, through the full-online project delivery environment, help to manage project schedules, risks, problems, code quality, core personnel investment, online software asset management, forming a closed loop from procurement to delivery, and achieving the goal of “enhanced delivery acceptance control and overall upgrade of management efficiency”.

On the supply side, JointForce collects and connects with a wide range of software suppliers through “cloud-based software park”. During the reporting period, the “cloud-based software park” has made rapid progress in Zhejiang, Guangxi, Guangdong and Shandong provinces. It completed the construction of service platform for the park, and provided services in key provinces such as Jiangsu, Shandong, Zhejiang, Hubei, Anhui, Chongqing, Shaanxi, Fujian, Guangdong and Guangxi and will continue to build the JointForce software ecosystem.

In addition to the above-mentioned breakthroughs in demand side and supply side, JointForce continued to optimize and upgrade. During the reporting period, JointForce completed accurate portraits, also known as due diligence, of 13,000 enterprises, built enterprise capability and credit model, implemented data platform 2.0 and intelligent recommendation system 3.0 based on "AI+big data", strengthened big data analysis capability, enriched digital marketing tools, and constructed digital operation system. During the reporting period, JointForce worked with the Beijing branch of China Unicom to develop solutions such as Internet of Things and big data, set up online professional service stores, and launched such ecological zones as cloud services, big data and intelligent manufacturing, and provided the cloud transformation and the political exploitation service fast channel for the user. During the reporting period, JointForce fully optimized the service flow, continuously upgraded the service system, enhanced the bilateral delivery experience, optimized the online development environment, and the platform-hosted enterprise-level code has exceeded 1 billion lines. During the reporting period, JointForce and China Software Industry Association jointly issued *Evaluation Standard for Software Service Provider's Delivery Capability* to standardize the software delivery process, optimize the structure of the software industry, and led the transformation and upgrading of the industry.

- **Intelligent Manufacturing**

  During the reporting period, JointForce followed the development trend of the "Made in China 2025 Core Integrator" and carried out several strategic cooperation with well-known enterprises, research institutions and governments. During the reporting period, the Group achieved strategic cooperation with Bosch of Germany, FORCAM of Germany, ESI of France, Haier, Phoenix Contact of Germany, Fast Group and NARI and other enterprises in the field of industrial Internet platform. The Group committed to co-building on-line industrial manufacturing software services ecosystem. Among them, the "Collaborative Manufacturing Platform Project for Commercial Vehicle Supply Chain" which the Group participates in was selected as the "Industrial Internet Pilot Demonstration Project in 2018" by the Ministry of Industry and Information Technology. The Group and the Turing AI Institute of Nanjing, led by Yao Qizhi, co-founded JointForce-Turing Research Institute, which is committed to promoting the application of digital city, intelligent manufacturing new technology, new business, new model and new business activities. The Group participated in the investment of Turing Technology Fund, achieved the combination of industrial and financial development model, and deepened the Group layout in the field of artificial intelligence. The Group, together with the China Information Technology Industry Federation, promoted the construction of "Industrial Software International Cooperation Industrial Base", and planned to build an international industrial software industry group integrating R&D, design, production and service within five years. The Group introduced a number of leading industrial software enterprises, incubated more than 100 innovative industrial software enterprises, drove related industry linkage to obtain more than RMB10 billion of revenue. The Group, in cooperation with China Electronics Standardization Institute, participated in the preparation of "Classification and Evaluation of Industrial APP" standards and "Research and Development of Industrial Software Integration and Interconnection Tool Library and Verification System" projects, and was selected for "Special funds for the transformation and upgrading of provincial industries and information industry in 2018" projects in Jiangsu province. The Group cooperated with the local governments such as Nanjing, Chongqing, Xiamen, Kunshan and Guangzhou to build innovation centers, institutes and industrial bases related to intelligent manufacturing, etc., and provided diagnostic, digital transformation services and integrated solutions based on "Honeycomb" industry Internet enabled platform for thousand enterprises in the general equipment manufacturing industry, special equipment manufacturing industry, automobile manufacturing industry, the manufacturing of electrical machinery and equipment, as well as in the manufacturing of computers, communications and other electronic equipment, the Group promoted the digital transformation and upgrading of enterprises, and built cloud-based ecosystem that integrates software, services, diagnostics and consulting services and solutions.

- **Cloud Service**

  During the reporting period, the Group continuously expanded its cloud business layout, continued to work in cloud management and cloud enablement, and built future sustainable development and long-term profitable cloud business model.

  In the cloud management services, based on the existing cloud butler service capacity, the Group strived to build cloud management service system for Huawei cloud and Azure cloud. Its cloud consultation, cloud migration, the implementation of operations and maintenance capacity was significantly improved. During the reporting period, the Group continued to introduce the mature capability based on Azure cloud, set up a joint team of China, the United States and India, to set up a perfect international cloud service professional force. It integrated a set of modular service system, and realized the localization and globalization layout of cloud service industry solutions. During the reporting period, the Group established more than 60 cloud management service definitions and development service catalogs, and has cooperated with China's largest dairy company, world-renowned commercial vehicle company, large communication tower infrastructure service company, Guangzhou Xunyi Technology, Peking University, Shaanxi Auto Trade, and China Special Equipment Inspection And Research Institute, etc., which successfully helped enterprises to migrate the 3,300 of cloud hosts, nearly 1,000 databases and 3,500 TB of data volume.

  During the reporting period, the Group adhered to the development strategy of "platform+ecosystem", worked together with Huawei to build a continuous loop-locked iterative ecological service system, and successfully provided customized services for the government, education, communications, Internet derivatives, transportation and other industry customers to help customers achieve digital transformation. The Group provided cloud management services to a provincial government, the NDRC, the Ministry of Human Resources and Social Security and the medical insurance departments for urban residents to ensure the stable operation of the system. During the reporting period, the Group won the "Outstanding" award of Huawei eco-partner elite competition, becoming the leading force in the cloud service industry nationwide.

  In the cloud enabling service, based on sailing on the same boat partnership with Huawei, the Group continued to expand the cloud market, accelerated the expansion of the cloud team, and constantly strengthened its cloud enabling service capacity. During the reporting period, the Group focused on the cloud service in IT infrastructure of medium and long-tailed customers in the software industry, deepened dive into cloud scenes and demand, successfully expanded more than 1,000 customers, and won the "Distinguished" Award in the "Promotion Competition of Small and Medium-sized enterprises" from Huawei. During the reporting period, the Chinasoft International-Huawei Cloud Joint Innovation Center was built in Xi'an, Chongqing and Xiamen providing software development cloud services to more than 1,000 local enterprises and universities. During the reporting period, the Group established the cloud computing incubation center with Huawei, incubated the industry benchmark ISV, enabled the Huawei cloud partners, and built the Huawei cloud partner ecosystem. Currently, the Group has built 10 incubation centers in Nanjing, Guangdong, Beijing, Shanghai, Zhejiang, Hebei, Shaanxi, Chongqing, Fujian and Shandong as well as the supporting technical support team of nearly 100 people, covering 10 representative offices of Huawei Group, helping Huawei to jointly expand its 1,500 of cooperation partners and identify more than 120 NP cooperation partners.

During the reporting period, the Group developed a new cooperation model with Tencent cloud, and cooperated on such projects as operation and maintenance services of a municipal public security bureau, UI design of car networking, private cloud of a core media group; Through Tencent cloud independent software vendor (ISV) authentication, the Group obtained Tencent cloud subcontract channel; Through Tencent enterprise ISV authentication, the Group has access to Tencent enterprise sub-contracting channel and becomes professional version of the product agency. Through its own research and development of audio-video encryption solutions, the Group guides the Better Life electronic migration to Tencent cloud and single audio-video distribution platform project.

- **Big Data**

  During the reporting period, the Group's big data business firmly implemented the strategy of "focusing on the industry" and "deepening dive into solution". It continued to consolidate its existing advantages in the financial industry, maintained a good development trend in the newly entered airports, all-in-one cards, government affairs big data and other fields, and expanded to new high-potential manufacturing industry customers, such as high-tech enterprises and automotive.

  During the reporting period, the competitive advantage of data services in the financial sector was further consolidated, great progress was made in the planning of forward-looking data platforms and the production of data services. In the banking field, the Group focused on joint-stock banks and urban commercial banks. Under the banking sector, the Group strengthened governance, the supervision of service entities and industry development requirements to provide customers with mature mixed architecture big data platform and data management governance platform solutions, and helped customers constantly improve operational efficiency and management level in venture capital measurement and other advantages of data applications. During the reporting period, the data control and governance project implemented for an urban commercial bank was successfully completed and delivered. The urban commercial bank is a global banking of top 500 enterprises, which has high requirements in digital transformation and data governance, the Group's big data service team launched its implemented data management project successfully, which provided an important guarantee for its new generation of core system high-quality operation. This project used a set of commercial bank data control landing methods, tools and platform, with high degree of compatibility with "Guidelines on Data Control of Banking Financial Institutions" issued by CIRC, which is expected to bring considerable incremental customers under the good market prospects when the domestic commercial banks in the future will large-scale implement Guidelines above. During the reporting period, a successful bid was made for the venture capital measurement engine project of an important urban commercial bank in the Pan-Pearl River Delta region. It is a customized solution for the venture economic capital measurement project of small and medium-sized financial institutions made by MSCI and Chinasoft International, which will provide the best practice case for market venture capital measurement to serve more small and medium-sized financial institutions in the future. During the reporting period, the construction of a big data analysis mining platform for an urban commercial bank in cooperation with an Internet financial and technology giant was successfully completed, and it is expected to continue to provide services in the customer's follow-up projects, and also has more in-depth cooperation with Internet technology companies in other financial and technology projects.

In the field of insurance, based on the deep understanding of business demand and technology development trend, the Group provided continuous data platform construction and development services for its customers, and has innovated and developed intelligent application products such as intelligent insurance pricing for automobile insurance, intelligent competition analysis for property insurance, etc. and successful won several large-scale insurance enterprises procurement projects. In addition, under the guidance of the insurance regulatory agency, the second batch of *Code for Data of Factors of Insurance Business* was completed, and the operation project of the Personal Accident Injury Insurance and Health Insurance Risk Management Platform was successfully completed.

In the field of securities, big data platform structure, data management and governance, public opinion, risk transmission, associated accounts and other big data basises and innovative applications have been accumulated and explored, and together with the securities industry institutions, filling the information gap with data intelligence technology. Spare no effort on both technology supervision for core institutions and intelligent data analysis for business organizations. During the reporting period, a number of big data consultation and implementation projects, including big data platform, data standard control, bond trading, new generation of supervision and scientific and technological supervision, the customer and the enterprise portrait were successfully awarded in the field of securities, bonds, futures, funds and management, etc. It provided the high technical content and the practical efficiency data engineering service for the multi-level capital market construction and the intelligence front line supervision.

During the reporting period, the intelligent airport business greatly expanded. With the down-to-earth project accumulation and internal R&D investment in recent years, the team has initially formed a relatively comprehensive big data solution of intelligent airport, becoming the leading domestic airport intelligent data center construction service provider. During the reporting period, the Group won the bid for the Beijing New Airport intelligent data center system, set up a big data analysis processing and distributed computing storage platform with international advanced level, and used big data, artificial intelligence, complex event processing and other technologies enabling "Airport 3.0 of Intelligent Airport". The winning bid marks the Group's successful entry into the domestic airport's first tier of intelligent data center service providers. The project is progressing smoothly during the reporting period and is expected to be delivered on schedule with the new airport in 2019. During the reporting period, the Group won the bid for Wuhan Tianhe International Airport intelligent data warehouse construction project, and the project is progressing smoothly and is expected to complete at the end of 2019. During the reporting period, the second phase of the West Airport construction data center project will be completed and delivered with high quality, and the Group will provide continuous data intelligent application development, data governance and data center maintenance services in combination with customer digitization and intelligent strategy.

During the reporting period, customers in the one-card industry were able to continue to expand, which successfully won the bid for Jiangsu traffic one-card platform data mining project, and successfully completed the final evaluation of the first phase of the project during the reporting period. The review experts fully affirmed the scientific and advanced content of implementation and delivery of Jiangsu interconnected business analysis, GIS visualization analysis, data forecast and analysis. During the reporting period, the Beijing one-card big data project undertaken by the team also successfully passed the acceptance, showing that the data service business line is becoming mature in the field of the city one-card big data platform engineering construction capability.

During the reporting period, the government big data business steadily grew. The first phase of “Changping government data cloud” project was successfully completed and implemented. The project integrated the standard system of information sharing of government affairs in Changping district, constructed the environment of government affairs in the whole area, completed the data concentration and application migration of nearly 300 systems, constructed the basic database and theme database, basically completing the construction task of “cloud of Changping” in the third phase of the whole project design, and realized the goal of “setting the standard and building the platform” and “integrating data and collecting integration”. During the reporting period, the construction of the second phase “digital Changping” project has been launched, and the target of “promoting governance and sharing” and “applying and digging” will be taken as the traction to further enhance the level of digitalization and interconnection of government affairs in Changping district.

During the reporting period, key customers in the fields of automobile and optical manufacturing have been developed, and breakthroughs have been made in the manufacturing industry. The Group won the bid of both the main data management project of Sunny Optical Technology Co., Ltd., the biggest comprehensive optical product manufacturer in China, and the data management project of Foton Co., Ltd., the biggest commercial vehicle manufacturer in China. Under the background that the domestic manufacturing enterprises use new information technology to improve management level and operating efficiency, the above-mentioned project is a good beginning for the Group’s big data business to develop high-tech and automobile manufacturing market with broad prospects.

During the reporting period, the Group participated in the preparation of several national White Papers in the field of big data and artificial intelligence. As a chief editor, the Group participated in the *White Paper on Knowledge Mapping* led by the Cloud Computing and Big Data Institute of CAICT, which is the first national White Paper in the field of knowledge mapping technology industry in China. It is a valuable tool for both supply and demand in the process of knowledge mapping industry landing. During the reporting period, the Group also continued to participate in the first domestic *White Paper on Data Asset Management Practice*, led by Cloud Computing and Big Data Institute of CAICT. The White Paper is an important guiding document in the field of domestic data asset management, which was revised twice after the first edition was publicly released in November 2017 and version 3.0, was released in December 2018. During the reporting period, the data asset management platform with independent intellectual property rights became one of the first domestic products to be evaluated through the data product standards of CAICT of Ministry of Industry and Information Technology.

- **Huawei**

  During the reporting period, Huawei's business grew steadily, the Group cooperated more closely with Huawei cloud, and was awarded "Huawei Cloud Best Partner" at the 2018 China Eco-partner Conference held by Huawei and entered Huawei's core supplier list. In the field of overseas software services, the strategic cooperation between the Group and Huawei has achieved with a substantive breakthrough, the "Co-sell" model for telecom operators has been successfully implemented in Malaysia and Myanmar. The Group has won a software operation and maintenance project of BSS operation support system from Time, the second-largest fixed-line operator in Malaysia. Mobile Money APP, a self-developed product of the Group, has been successfully applied in Huawei's KBZ project in Myanmar, making an important contribution to the commercialization of Myanmar's first mobile payment system. The Group expanded its technology service center in India and obtained the engineering procurement qualification of Huawei India. The joint innovation project in Hong Kong progressed smoothly and obtained both product procurement and engineering procurement qualifications as well. During the reporting period, the Group actively innovated in the traditional technical services, through the "zero distance" innovation, enhanced the initiative service awareness of all staff, improved customer awareness and cooperation level, received good results, and successfully entered the "Supplier Development Plan" of Huawei with excellent service capabilities and development potential.

- **HSBC**

  During the reporting period, HSBC business, with a 3000-person team, achieved a rapid growth. The Group built the first Xi'an ODC(offshore development center) together with Galaxy Macau.

  During the reporting period, the Group undertook the key projects of HSBC's risk control department, monitored the money laundering risk of commercial customers through the whole process, deeply discovered the potential value of commercial customers, and provided data support for nearly 70 countries and regions to continuously monitor 30 million key customers. The Group participated in two major releases of HSBC Hong Kong mobile bank APP project and completed APP new versions launched in China, UK and Singapore. The Group helped HSBC to upgrade its new network banking system and its business grew by 30%. During the reporting period, small and medium-sized enterprises digital transformation business of HSBC in the global service made breakthroughs. The Group's digital transformation business delivered by Xi'an team was catching up with the UK and India, to achieve superior competitiveness. During the reporting period, the Group provided a new generation of intelligent query and reporting solutions, which were applied to customer's core system and was highly recognized by customers. This will be launched and promoted in multiple countries later. During the reporting period, the Group won the award of the new generation of HSBC online personal banking system ASP PIB Banking 2.0 project, which was successfully launched in Xi'an.

  During the reporting period, the Group extended its business model of serving HSBC to other bank clients in overseas markets. Hang Seng Bank's business team has doubled in size and the Group has become the biggest outsourcing provider of Hang Seng Bank. The Group participates in the third generation of global individual bank platform and commercial bank platform project of Hang Seng Bank, which has been widely applied in China, Hong Kong, Macao, Singapore, etc., and has been recognized by customers. During the reporting period, Malaysia Mobile Bank, a new generation of TP platform, officially launched with Duitnow fast payment function, which reduced the previous days of the process to 20 seconds, and supported more payment scenarios and more agent types, and provided more convenience and efficient payment service for 300,000 users in the Malaysian market. In addition, the Group has established a cooperative relationship with the Bank of Montreal, signed a short-term MSA contract, successfully opened new customers of foreign banks, and also opened a new situation of diversification of customers of foreign banks.

- **Finance and Banking**

  During the reporting period, financial and banking services business continued to grow rapidly which consolidated its competitive advantages. The Group deepened its partner relationship with customers and explored innovative areas in the meanwhile. In view of the development and transformation demand of financial and banking customers, the Group grasped the market hot spot, increased investment in product R&D, strengthened the innovation of solution business, and responded to the changes of market and competition pattern in time.

  During the reporting period, the Group continued to expand cooperation with over 40 of new customers including domestic banks, foreign banks, regional branches, private banks, securities, and fund non-bank institutions. The total number of existing cooperative customers reached 500. During the reporting period, the Group provided product solutions and software development integration services to 15 large state-owned banks and national joint-stock banks, covering such areas as core host, credit financing, payment settlement, credit card, risk management, professional testing, and implemented the application scene in artificial intelligence, financial cloud services, big data applications and etc. Among them, the credit card full process system helps a number of banks achieve more than 50 million high-performance transactions, credit product integration, financial approval, marketing channels, performance visualization, intelligent advertising recommendation, real-time risk detection, receipt reconstruction, global payments, process management and foundation platform have provided powerful help to client business innovation. During the reporting period, the Group's City Commercial Bank and Agricultural Credit customers exceeded 200. In terms of large financial groups and non-bank financial institutions, during the reporting period, the Group carried out project cooperation with more than 30 institutions, such as Haier Group and Fosun Group, and the project cooperation with China UnionPay and Foreign Exchange Center increased rapidly. The Group established cooperation with banking financial technology companies and carried out projects in credit financing, financial cloud services, and AI application direction. For foreign banks, the Group developed its business direction well during the reporting period, maintaining long-term cooperation with more than 40 clients of foreign banks in Europe, the United States, Japan, South Korea, Southeast Asia and Australia, etc. A number of products in the fields of network payment, bill business, supply chain, cross-border payment, and data integration and reporting have reached more than 90% of the foreign bank's customers. In the overseas customer development aspect, the Group has realized the all-channel billing software of overseas sale to the world's top five well-known banks, and has completed the project's overseas implementation in Southeast Asia many times, and maintained the business cooperation with many overseas branches of Bank of China.

During the reporting period, the banking and financial sectors continued to promote technological innovation. With the help of the strategic cooperation with Baidu, the Group provided customers with technology enabling, model innovation and business upgrade. In cooperation with well-known universities, by using big data to build business model, artificial intelligence in the financial field is achieved in-depth application and scene landing to create greater value for customers. The Group used big data and AI technology to upgrade data warehouse, data exchange, intelligent mining and other platform products. During the reporting period, the Group actively responded to the "going global" strategy, promoted customer portraits, smart marketing, anti-money laundering and other solutions overseas, and promoted the implementation of its banks in Southeast Asia.

During the reporting period, the Group continued to invest in research and development of market trends, integrating advanced technologies such as automatic voice, machine learning, biometric identification, micro-services, and big data analysis into the product, realizing business innovation and product upgrade. Many products, such as intelligent collection, intelligent marketing, application of anti-fraud, intelligent risk control, intelligent merchant cloud and overseas full-channel billing, have obtained software copyright and product registration. Among them, the bill product completed 100 customer's ticket exchange, paper electric fusion and ticket payment project on-line; The collection product introduced AI technology to help customers decrease their overdue rate of return. More than 20 business varieties of supply chain products help customers to establish a supply chain financial ecosystem with "multi-flow in one" including material flow, business flow, information flow and capital flow. Core products of Internet credit controls business risk through expert rules and big data analysis model. Financial card-based products continued to expand business scenarios, integrated a variety of payment models, built a trading wind-control model to prevent fraud, and completed the product upgrade.

- **Insurance and Securities Industry**

  During the reporting period, the insurance securities business grew rapidly, and the size of the team exceeded one thousand people. In the insurance industry, Taikang Insurance, CPIC, CIITC, China Life P＆C, PICC, Sunshine Insurance, Anbang Insurance and other major client's business have steadily developed. China Guarantee Policy Registration Platform data quality pre-promotion and property insurance applications, China Life P＆C and Car Insurance decision support system, insurance metadata and data quality management system, insurance Internet competitive analysis system were all implemented online. During the reporting period, the Group expanded ODC outsourcing business with clients such as AIA Insurance Asia-Pacific and AIA Insurance China, and established AIA ODC in Zhangjiang Hi-tech Park of Shanghai, becoming a new base for AIA outsourcing business. During the reporting period, the securities industry continued to expand at a high speed, the enterprise-level data warehouse (EDW) of the China Securities Depository and Clearing Corporation Limited, the new supervision of the Shanghai Stock Exchange, the supervision and risk management of the Shanghai Stock Exchange's bonds, the second phase of the Shanghai Stock Exchange's big data, and the second phase of the national stock exchange's data infrastructure, the new monitoring system of Shenzhen Stock Exchange Hadoop platform and other projects successfully launched. The Group won the bid for a new generation of information platform planning advisory services project to achieve high-end consulting projects breakthrough.

- **Telecommunication, Internet and Mobile Terminal**

  During the reporting period, Tencent's business grew rapidly. With about to 2,000 people on the team now, and the business model is transforming from human capital outsourcing to project outsourcing. The Group won the first bid of fixed-price (FP) auditing projects, whole package gaming project and Tencent AI data labelling projects. What's more, the Group deepen the cooperation with QQ music. During the reporting period, the Group set up the first Chinasoft International-Tencent Nearshore Delivery Center (NDC) in Shenzhen to lay the foundation for building NDC in other regions. During the reporting period, the Group won Tencent Interactive Entertainment Group (IEG) annual first quality supplier again. And maintaining Tencent IEG exclusiver service provider for three years in a row.

  During the reporting period, the Group's Ali business made breakthroughs in the following aspects. The Group entered the human-computer interaction laboratory business of Alibaba DAMO Academy for the first time. In order to upgrade and transform the management delivery of the technology outsourcing of Ali Group, the first pilot project of the artificial intelligence lab Tmall Elf Project entered the IDU (Independent Delivery Unit) transformation, which helped Ali business to jointly release the AI consumer product Tmall Elf X1. For the first time, the Group undertakes the content audit business of Alimama quality control platform and promotes it smoothly. The successful bidding and delivery of 10 million-grade project of "Ant Financial Insurance Audit" filled the blank of ant insurance business. During the reporting period, the Group became the first school-enterprise cooperation supplier of Amap on-site service.

  During the reporting period, the Group doubled the growth of Baidu's business, adding cooperation with Baidu's main channel business--search division while consolidating its traditional EBG business. In addition, the Group further deepened cooperation with Baidu in the field of AI, expanded AI annotation, data analysis, learning model research and development of new cooperation content, and laid a solid foundation for the follow-up more extensive and in-depth cooperation.

  During the reporting period, the Group successfully won the bid for research and development of China Mobile Suzhou R&D Center in 2018. The Group successful won MIGU Co., Ltd exclusive service, to maintain an absolute advantage. The Group cooperated with SCNJ on "operation+technology" in Xi'an area.

- **High-Tech Business**

  During the reporting period, the Group received Microsoft China Tier1 service provider qualifications. The business team grew rapidly, and expanded cooperation with Microsoft globally in China, US, India and Singapore. In the emerging business level, the Group grasped the strategic direction of Microsoft's Cloud+AI, and actively promoted the cooperation with Microsoft in Azure cloud and AI voice, which already has the mature Azure and AI voice expert team. The Group carried on the market promotion jointly with Microsoft, from the market in China area to the whole Southeast Asia.

During the reporting period, the Group continued to enhance IoT solutions and technical services capacity, broke through technology bottlenecks, improved self-research and development capabilities. During the reporting period, the Group's GE business grew rapidly, won the bid of GE Thinking Working platform IoT project, completed the MVP1(Minimum Viable Product) and MVP2 submission, and successfully won the follow-up project; In the field of remote vehicle management and medical equipment, the Group provided IoT software development, testing, deployment and maintenance services, and won the bid of GE Healthcare China medical equipment business maintenance support projects, in which the service covered more than 20 provinces and cities; Take the medical industry solution as the traction, the Group obtained the Maurice Lacroix and the Sanofi customer project successively. During the reporting period, the Group established a Nearshore Delivery Center in Malaysia to provide Nearshore+Offshore delivery services to Singapore Electric and its surrounding customers.

During the reporting period, the Group achieved cooperation with China Mobile Internet of Things in the field of IoT, made joint efforts to promote a number of IoT application projects, with the Group's team size of nearly 100 people and business cooperation covering Chengdu, Beijing, Wuxi, Ningxia and other provinces and cities. During the reporting period, the Group's IFLYTEK business made rapid development, with the Group's team size of more than 300 people, the winning Internet of Things cooperation support the research and development, functional human outsourcing and many other projects successfully implemented. The two company cooperate in intelligent families, intelligent cities, intelligent education and other areas. Among them, the IFLYTEK's product translation machine to C end, Alpha egg and other business cooperation had a rapid growth, with further negotiation in AI financial cooperation.

During the reporting period, Ping An's business in the Group grew rapidly. The Group became one of two major suppliers of Ping An Group, making significant breakthroughs in new technology applications, financial products and solutions. In Ping An banking, the size of the Group's service team doubled, helping Ping An Bank succeed in turning to the Internet architecture. In Ping An's life insurance field, the Group successfully won the outsourcing project. Deepened cooperation in the smart city and medical and health field, with the help of the Group's accumulated AI, big data and other technical capabilities, the business gradually formed a complementary development of win-win model. During the reporting period, through factoring products and direct banking solutions, the Group successfully made a breakthrough in the business of Ping An Leasing and Ping An Finance One Connect, and gradually improved the business layout of Ping An in the Group.

During the reporting period, ITO business of Japan grew rapidly, and Japan's resident team exceeded 100. During the reporting period, the Group's cooperation with existing customers and continued to expand, to Hitachi, Sony, Japan Ricoh, Omron, Nippon Steel, Ricoh and others. Catching up with Japanese nearshore trending, the Group expanded its business in Tokyo, Osaka, Nagoya, Kyushu and other local cities, which will lay a good foundation for the follow-up business development.

During the reporting period, the Group's S.F.Express (SF) business has grown steadily, which is now covered SF Express, SF Commercial, SF Aviation, SF Payment, SF Technology, Hive Box, Foonsu and other services; The geographical cooperation has been expanded gradually from Shenzhen area to Beijing, Wuhan, Shanghai, Chengdu and other regions. With independent project cooperation gradually increasing, business model is changing from outsourcing only to diversified business cooperation.

During the reporting period, the real estate ODC business grew rapidly. The size of the team exceeded 100 people and a new ODC was created in Xi'an. Among them, Mingyuan real estate ODC business income doubled, and changed from outsourcing model into independent delivery model. The Group won annual best quality prize of Mingyuan cloud group, annual best partner award of Mingyuan Hunan region and Yunnan region. During the reporting period, the Group developed new real estate customers such as Jinke, AIM and R&F with the help of its real estate ERP capability. The Group cooperated with the industry's leading customers including Wanke, Country Garden. With its business capacity improved rapidly, the real estate industry has been recognized by customers. The Group successfully won the bid of Chongqing Jinke, Sichuan New Hope Real Estate, Guangzhou Times Property, Shenzhen Logan, Galaxy Real Estate, Optics Valley Union and other projects.

- **Government Service**

  During the reporting period, the Group's government business continued to innovate and steadily grew. The Group continued to dive deeply in predominant audit information business, and won landmark projects in social security, agriculture, the media, customs and other business areas.

  During the reporting period, the Group became the first audit informationization stack solutions supplier through several significant innovations, and will remain the dominant position. During the reporting period, the digital intelligent audit projects, such as Shanghai, Dayawan and so on, passed the acceptance successfully. On-line audit benchmarking project Tianjin "one net" project (Phase II) was implemented on-line smoothly. The first phase of the audit management system of Postal Savings Bank of China successfully passed the acceptance and started the second phase of construction. The Group provided data analysis services for Beijing West City Audit Bureau and achieve high recognition and continuous service of strategic cooperation. During the reporting period, the Group launched an upgraded version of "Chinasoft audit analysis platform" products and launched in Pudong New Area of Shanghai, Chaoyang District of Beijing and other places; Cooperate with many customers to carry out data trial service, and form stable cooperative relations in Shanghai, Beijing, Hubei, etc. As an expert in auditing information industry in Jiangsu, participate in audit information planning, top-level design, large-scale project planning, science and technology innovation awards evaluation work in Shandong and other provinces and other cities, to bring high value-added advisory services to customers. During the reporting period, the Group strengthened its exploration in enterprises, finance and other fields, and gradually realized the cross-border development of To G to To B. The Group provided industry-leading solutions for 1 million level internal audit users, made a number of breakthroughs, successful signing of Hua Xia Bank's internal audit projects; The Group cooperated with the Shaanxi Provincial Audit Office to carry out full-coverage audit, and came into the internal audit of large-scale manufacturing enterprises from the audit perspective. At the same time, the Group carried out product research and development in risk control, internal control, compliance and other areas, gradually forming industry benchmarking products, and carries out cooperation with China HUANENG Group, China Railway Construction Corporation Limited, China Electronics Technology Group Corporation and etc..

During the reporting period, the Group made steady progress in the social security field. The Guizhou Qiannan regional health platform undertaken by the Group has passed the preliminary acceptance, and the personal health archives and electronic medical record library in Qiannan have been successfully built, which has provided information sharing service for hospitals at all levels and residents in Guizhou. Successful won the bid of the second phase project of "JINBAO GONGCHENG" fund supervises, supporting four-level application of the ministry, the province, the city, the county.

During the reporting period, the Group continued to deeply cultivate the agricultural information field, continuously precipitated the sub-area solutions and products, and served 6 departments of the Ministry of Agriculture and Rural Affairs and 15 departments of directly affiliated institutions, with system users covering 6 provinces of over 100,000 of agricultural entities. During the reporting period, the Group won the "national animal husbandry general information platform" project, focusing on building intelligent animal management cloud platform solutions. The Group launched the agricultural industry structural adjustment big data platform solution and implemented in Guizhou province, providing accurate decision-making support services to command, dispatch and do benefit analysis of over 4,700,000 mu dam area in Guizhou province.

During the reporting period, the Group continued to consolidate its leading position in the cultural media industry by providing solutions such as new media integration, digital publishing, mobile Internet news dissemination and multimedia magazine presentation to the central and local media, newspapers and magazines, and helped customers transform to new media integration production mode of omnimedia convergence, multi-platform production, multi-channel distribution. The Group's main customers includes Xinhua News Agency, People's Daily, Economic Daily and other large media. Among them, the Group has set up a modern communication system in the new media field for the "Xinhua News Agency client unified national release and big data analysis platform" project of Xinhua News Agency undertaken by the Group, covering the scale of 300 million users in all provinces and cities.

During the reporting period, the Group launched the "Internet+Customs" integration platform project, using technologies such as the Internet, big data, cloud computing, etc., integrating customs government affairs services and business information, establishing government service platforms and portals, and providing various forms of one-stop government affairs services on-line and off-line, realizing on-line and off-line one-stop operation, one acceptance, one feedback, and full disclosing government service information.

- **Manufacturing Circulation Industry**

  During the reporting period, manufacturing business increased steadily. The Smart Manufacturing Execution System (S.MES) platform developed by the Group dominated in the tobacco industry in China, with a market share of over 75% from 2016 to 2018. During the reporting period, the Group successfully signed several MES construction and upgrading projects at Guizhou, Guangdong, Shandong, Ningbo, Guangzhou, etc. The MES project of Bengbu Tobacco Roll Factory was successfully implemented, and the MES project of Hongta Tobacco (Group) was successfully put into operation in Dali Cigarette Factory. The total integration project of unified platform in tobacco industry was successfully completed and passed the verification. During the reporting period, the Group successfully won the procurement specification system project of the State Tobacco Monopoly Administration and the provincial purchasing regulation management system of 11 provinces. Won the bid for Zhejiang monopoly management platform and established tobacco industry's first cloud-based, distributed, micro-service monopoly management platform, which laid foundation for cloud only, "Internet+" based construction and promotion.

  During the reporting period, the new retail business continued to innovate and steadily improve. The Group has successfully participated in the new retail projects of a number of provincial and municipal customers, achieved breakthroughs in Guangdong, Shaanxi, Fujian and so on, and have been highly recognized by customers. During the reporting period, the Group strengthened technical cooperation with Huawei, Baidu and other companies in the new retail field, introduced facial recognition, two-dimensional code, electronic price tag, face payment, cloud services and other leading technologies, and constructed new retail application scenarios. During the reporting period, Guangdong tobacco new retail project as the first new retail benchmark project successfully landed. The Group completed 26 smart store construction tasks in the province, covering 11 cities including Guangzhou, Foshan, and Zhuhai.

- **Public Affairs (transportation, energy)**

  During the reporting period, the transportation business kept growing steadily, and the energy business with Huawei went global successfully.

  During the reporting period, the Group continued to cultivate the specialized market of clearing with advantages in the field of rail transit, focusing on the application of mobile payment, continually winning the bid of the application transformation of two-dimensional code in Qingdao metro network, the application transformation of two-dimensional code in Chengdu metro network, and the application of Lanzhou metro UnionPay ODA, the equipment purchase and integration project of Changsha rail transit internet ticketing platform system and the AFC project of Jinan rail transit R3 line, etc., with billions of dollars of the total amount of winning the bid. Among them, Changsha projects cover two-dimensional code, Bluetooth, NFC, financial IC card, ID card, face recognition, biological identification, credit payment and other payment forms. Rail transit ticketing Internet platform registered software copyright, and won the best R&D cooperation unit award of 100 partners of Changsha Rail Transit Group in ten years, which has a very good demonstration role in the industry.

  During the reporting period, the Group made great progress in the field of civil aviation informationization, the Group and the Civil Aviation Administration Information Center jointly completed the supervision and administration of flight standards, civil aviation administrative law enforcement supervision and management system passed preliminary acceptance, and was highly recognized by the Civil Aviation Administration of China and the Law Division. During the reporting period, the Group won the bid for Beijing New Airport, Wuhan Tianhe International Airport, West Airport and other projects, and established a good reputation in the smart airport field. During the reporting period, the Group developed "Chinasoft Smart Airport Big Data Platform" and applied and iterated in Beijing Daxing International Airport, Wuhan Airport, etc., which has been able to meet the needs of large domestic airports.

  During the reporting period, the Group invested in the development of a new generation of cloud-based IT-based automated ticketing system, which is expected to go to market in 2019. In terms of port business, Ningbo port e-commerce platform system was successfully launched, port e-commerce platform and the port paperless office system has been highly recognized by customers, and won the third prize of 2018 Science and Technology Award of China Port Association.

  During the reporting period, the Group opened overseas electricity market and made positive progress. The Group's self-developed power marketing products, combined with Huawei's power front-end connection management platform, provided customers with integrated power end-to-end solutions to build the power network ecosystem. In Southeast Asia, based on the power AMI project product delivery in the capital of a Southeast Asian country, the Group started the business migration of the country's existing electricity meters in legacy system, and cooperated with Huawei to actively expand the power AMI business and completed the power AMI experiment delivery project in several countries. In North and South Africa, based on HES transformation delivery project in a country in North Africa, the Group cooperated with Huawei to actively expand the power AMI market, and completed the power AMI experimental delivery project in a country in South Africa.

- **Catapult**

  During the reporting period, Catapult's business grew steadily and subscription revenue doubled. The Group's solution subscription-based product "Azure Management Services(AMS)" was officially launched. The AMS products provide Microsoft Azure-based cloud advisory services, architecture, administration and implementation to continuously optimize the customer's Azure environment. During the reporting period, Catapult launched the initial pipeline of AMS to consolidate the existing customer base, strengthen market expansion and after-sales support, deepen brand construction and achieve remarkable results.

  Catapult is one of Microsoft's most prestigious partners in the United States. During the reporting period, Catapult overtook its competitors and holds 16 of 17 available Microsoft's certification becoming a service provider with the expertise across all three Microsoft clouds, Azure, Microsoft 365, and Dynamics 365. Above all, Catapult is named Microsoft's US Partner Award Winner for Azure Compete.

- **Training (ETC) Business**

  During the reporting period, the training business developed steadily. The big data, artificial intelligence experiment system and the supporting courseware case resources were put into use by many colleges and universities, and the teachers' training of big data and artificial intelligence was carried out simultaneously, the major of big data was built together with many colleges and universities. During the reporting period, the Group completed the smart education cloud platform procurement project of Beijing Institute of Technology and Sanming College in Fujian province; The Group achieved cooperation with Rugao, Zunyi, Ningbo, Guangzhou and other government industrial park, to co-construct talent training industrial base (double-base), and Rugao and Zunyi have officially put it into operation.

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 RMB'000	2017 RMB'000	% Increase (decrease) over the same period last year
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 RMB'000	2017 RMB'000	% Increase (decrease) over the same period last year
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 Program) 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".

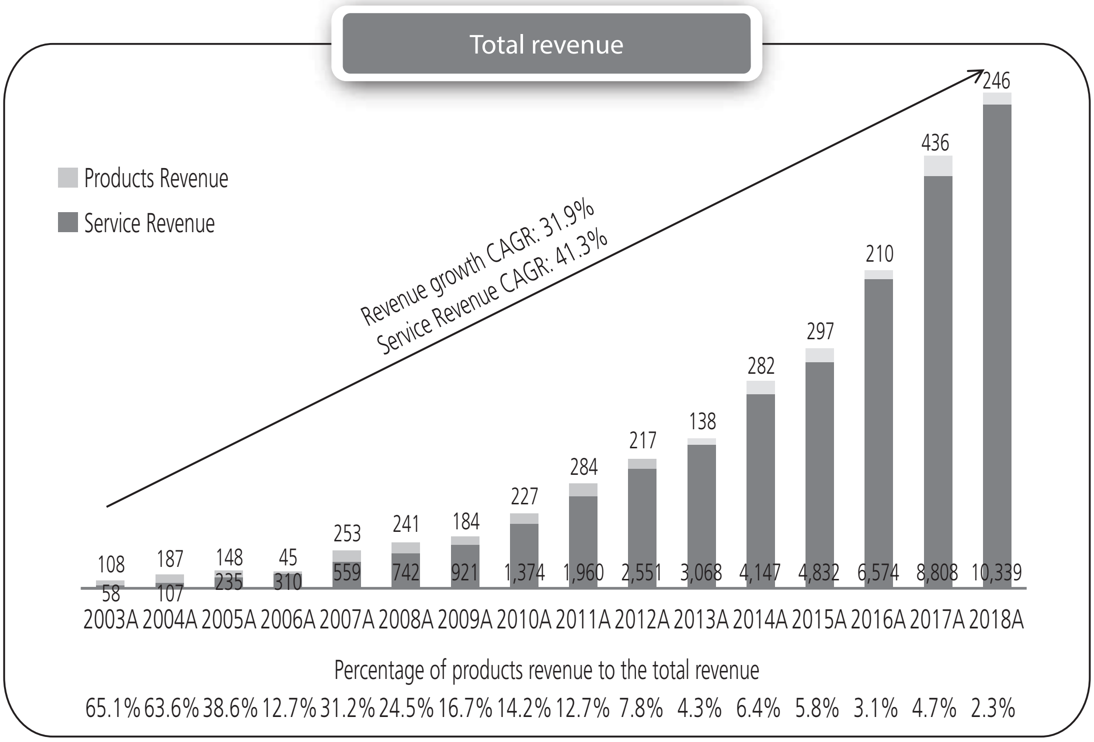
During the reporting period, the Group accelerated its strategic layout in the direction of smart manufacturing. The "Honeycomb" industrial Internet enabling platform has reached strategic cooperation with well-known domestic and foreign companies including Bosch of Germany, FORCAM of Germany, ESI of France, Phoenix Contact of 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

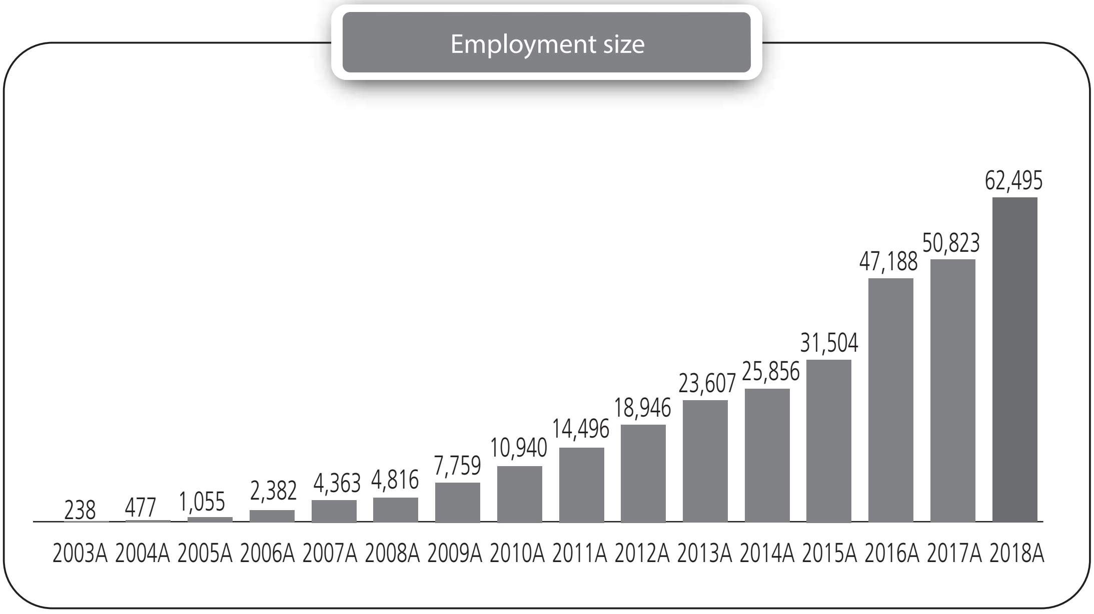
During the reporting period, the Group's main businesses are concentrated in the Greater China region. The huge market potential in the Greater China region continues to bring growth opportunities for the Group. The Group provides ITS to customers from 32 countries and number of Top 500 companies in 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 RMB'000	Weight	2017 RMB'000	Weight	Growth Rate
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 RMB'000	Weight	2017 RMB'000	Weight	Growth Rate
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 OR 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 costs 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 RMB'000	2017 RMB'000	Growth Rate	2018 RMB'000	2017 RMB'000	Growth Rate	2018 RMB'000	2017 RMB'000	Growth Rate
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.

FUND RAISING 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.

A. CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Group has complied with the CG Code from 1 January 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 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 the chairman and member of the nomination committee of the Company, resulted in a 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.

B. DIRECTORS' SECURITIES TRANSACTIONS

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

C. BOARD OF DIRECTORS

1. *Composition of the Board of Directors*

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

Executive directors:

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

Non-executive directors:

Dr. Zhang Yaqin	
Mr. Gao Liangyu	
Mr. Samuel Thomas Goodner	(retired on 18 May 2018)
Mrs. Gavriella Schuster	(appointed on 20 September 2018)

Independent non-executive directors:

Mr. Zeng Zhijie	
Dr. Leung Wing Yin Patrick	(retired on 18 May 2018)
Dr. Lai Guanrong	
Professor Mo Lai Lan	(appointed on 15 August 2018)

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

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

2. *Meetings and Board Practices*

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

During the year ended 31 December 2018, the Board held 5 regular board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance records of the board meetings and general meetings held are set out below:

	Attended/ Number of regular board meetings held	Attended/ Number of general meetings held during the year
Executive Directors		
Dr. Chen Yuhong	5/5	1/1
Dr. Tang Zhenming	5/5	0/1
Non-executive Directors		
Dr. Zhang Yaqin	5/5	0/1
Mr. Gao Liangyu	5/5	0/1
Mr. Samuel Thomas Goodner	1/1*	0/1*
Mrs. Gavirella Schuster	1/1*	0/0*
Independent Non-executive Directors		
Mr. Zeng Zhijie	5/5	0/1
Dr. Leung Wing Yin Patrick	1/1*	1/1*
Dr. Lai Guanrong	5/5	0/1
Professor Mo Lai Lan	3/3*	0/0*

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

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

3. *Functions of the Board of Directors*

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

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

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

4. *Independent Non-executive Directors*

During the period from 1 January 2018 to 18 May 2018, the three independent non-executive Directors appointed by the Company have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Among the three independent non-executive Directors, Dr. Leung Wing Yin Patrick has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules. Following the retirement of Dr, Leung Wing Yin Patrick on 18 May 2018, the Board comprised only two independent non-executive Directors, which fall below the minimum number required under Rule 3.10(1) and Rule 3.10A of the Listing Rules and no independent non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Professor Mo Lai Lan has been appointed as an independent non-executive Director of the Company with effect from 15 August 2018, the Board has then fulfilled the requirement under the Listing Rules.

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

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

5. *Chairman and Chief Executive Officer*

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

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

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

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

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

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

Prior to the convening of the annual general meeting of the company in May 2019, the board of Directors resolved that Dr. Tang Zhenming, Dr. Zhang Yaqin, Mrs. Gavriella Schuster and Professor Mo Lai Lan should retire and stand for re-election at the annual general meeting in accordance with the requirements under the articles of association of the Company.

8. ***Directors' Training***

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

During the year ended 31 December 2018, all Directors namely Dr. Chen Yuhong, Dr. Tang Zhenming, Dr. Zhang Yagin, Mr. Gao Liangyu, Mrs. Gavriella Schuster, Mr. Zeng Zhijie, Dr. Lai Guanrong and Professor Mo Lai Lan have participated in continuous professional development, including attending seminars or training sessions and reading newspapers, journals and updates relating to economy, general business or directors' duties and responsibilities etc.. The Company also encouraged all Directors to participate relevant courses which enable them to develop and refresh their knowledge and skills for better fulfillment of the directors' duties.

9. ***Indemnity of Directors***

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

10. ***Company Secretary***

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

According to Rule 3.29 of the Listing Rules, the Company Secretary of the Company has taken not less than 15 hours of relevant professional training for the year ended 31 December 2018.

D. BOARD COMMITTEES

1. Remuneration Committee

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

During the period from 1 January 2018 to 18 May 2018, the Remuneration Committee comprised four Directors namely Dr. Leung Wing Yin Patrick as the Chairman of the Remuneration Committee and Dr. Chen Yuhong, Mr. Zeng Zhijie and Dr. Lai Guangrong as the members of the Remuneration Committee. Dr. Chen Yuhong is an executive Director, and the remaining three members are independent non-executive Directors. Since Dr. Leung Wing Yin Patrick retired on 18 May 2018 at the 2017 AGM, the required composition of the Remuneration Committee did not meet the minimum requirement under Rule 3.25 of the Listing Rules.

Following the appointment of Dr. Lai Guanrong as the Chairman of the Remuneration Committee and the appointment of Professor Mo Lai Lan as an independent non-executive Director and a member of the Remuneration Committee with effect from 15 August 2018, the Remuneration Committee has then fulfilled the requirements under the Listing Rules.

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, retired on 18 May 2018)*	1/1*
Dr. Lai Guanrong *(Chairman, appointed on 15 August 2018)*	2/2
Dr. Chen Yuhong	2/2
Mr. Zeng Zhijie	2/2
Professor Mo Lai Lan *(appointed on 15 August 2018)*	1/1*

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

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors and senior management of the Company are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2019.

The Company adopted a new share option scheme on 20 May 2013 to replace the original share option scheme adopted on 2 June 2003, and adopted a share award scheme on 10 December 2018 which is valid and effective for a period of 10 years commencing on 10 December 2018. These schemes serve as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme and share award scheme are set out in note 40 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

2. ***Audit Committee***

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

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

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

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

Name of member	Number of attendance
Dr. Leung Wing Yin Patrick *(Chairman, retired on 18 May 2018)*	1/1*
Professor Mo Lai Lan *(Chairman, appointed on 15 August 2018)*	2/2*
Mr. Zeng Zhijie	3/3
Dr. Lai Guanrong	3/3

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

3. *Nomination Committee*

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

During the period from 1 January 2018 to 18 May 2018, the Nomination Committee comprised four Directors namely Dr. Leung Wing Yin Patrick as the Chairman of the Nomination Committee and Dr. Chen Yuhong, Mr. Zeng Zhijie and Dr. Lai Guangrong as the members of the Nomination Committee. Dr. Chen Yuhong as an executive Director, and the remaining three members are independent non-executive Directors. Since Dr. Leung Wing Yin Patrick retired on 18 May 2018 at the 2017 AGM, the required composition of the Nomination Committee did not meet the requirements under the CG Code A.5.1 of Appendix 14 to the Listing Rules.

Following the appointment of Dr. Lai Guanrong as the Chairman of the Nomination Committee and the appointment of Professor Mo Lai Lan as an independent non-executive Director and a member of the Nomination Committee with effect from 15 August 2018, the Nomination Committee has then fulfilled the requirements under the Listing Rules.

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, retired on 18 May 2018)*	0/0*
Dr. Lai Guanrong *(Chairman, appointed on 15 August 2018)*	2/2
Dr. Chen Yuhong	2/2
Mr. Zeng Zhijie	2/2
Professor Mo Lai Lan *(appointed on 15 August 2018)*	1/1*

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

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

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

4. Corporate Governance Functions

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

E. ACCOUNTABILITY AND AUDIT

1. Director's Responsibility for the Consolidated Financial Statements

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

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

2. Internal Control

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

3. Auditor's Remuneration

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB7.2 million to the external auditor for their audit services.

F. RISK MANAGEMENT AND INTERNAL MONITORING

1. Accountability

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

2. Structure of Risk Management and Internal Monitoring Governance

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

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

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

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

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

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

3. Risk Management

3.1 Risk Management Objectives

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

- Identify, assess, quantify, respond and manage all current and future significant risks, and contain them at all times at a level and in a scope acceptable to management;
- Establish a consistent and effective monitoring and reporting system for all significant risks;
- Provide reasonable assurance that the Company will comply with the requirements of relevant laws and regulations of external monitoring authorities, and that various departments comply with relevant internal rules and regulations;
- Provide reasonable assurance that significant measures to achieve the Company's targets are properly implemented.

3.2 Major Processes of Risk Management

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

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

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

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

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

3.3 *Significant Risks*

In accordance with the corporate risk management framework, the Group conducted an overall risk audit and assessment in 2018. The following lists the significant risks of the Group and its major affiliates, the changes in the nature and level of these risks, and the relevant plans and monitoring measures to mitigate these significant risks.

Risk Type	Risk Description	Response Mitigation Plan	Risk Trend
Risk in Market Competition	**New Competitors encountered during the Company's business expansion** Following the Company's business upgrade and transformation and its overseas expansion, the Company is faced with direct competition with world-class software companies. Market competition further intensifies as the cycle of generation grades for technology innovation in technological products has been increasingly shortened.	The Company has always emphasized the importance of technological innovations as well as improvements and upgrades of products, and as such has strengthened its fore-front research in the industry and increased its investments in innovation. The Company promotes the spirits of innovation and has been exploring innovative business models, upholding the idea of "transforming the old business and developing new business with the spirit of JointForce". While expanding its overseas business, the Company will take full advantage of its market in China, improving its overall competition through its existing customers with strategic partnership.	Increasing
Risk of Exchange Rate Fluctuation	**Risk of exchange rate fluctuation** Overseas business is an important integral part of the Company's main business. Exchange rate fluctuations may have adverse effect on the Company's competitive edge against the competitors overseas and on the development of the Company's overseas business. The fluctuations may also, to a certain extent, affect the Company's revenue and profitability.	The Company will continue to watch out the trend of the exchange market, and strengthen its analysis and studies on exchange rate fluctuations, continue to adopt appropriate foreign exchange hedging measures and select appropriate currencies for quotations to reduce any possible adverse effects brought about by exchange rate fluctuations.	No change

Risk Type	Risk Description	Response Mitigation Plan	Risk Trend
Risk Relating to Human Resources	**Risk relating to the market's competition for talents** While the Company's various businesses are at the fore-front of the industry, the maintenance of its technical and management capabilities rely on a team of high-quality personnel. At a time when the Company is under accelerated development and transformation, with a backdrop of constantly intensifying competition, the Company has to invest a lot more in human resources to recruit and retain critical talents, in order to become a centre where talents will accumulate, and a place where talents potentials will be fully developed. All these present a bigger challenge to the construction of its human resources system.	Through the construction of a human resources system with continuously optimization of talents, people required by the corporation will be attracted, developed, motivated and retained. We emphasize on value creation. Effective talent motivation is realised through the construction and implementation of the "Value Creation-Value Assessment-Value Compensation" system. We will optimize the functions and roles of various positions, and improve the employment qualifications system. We will optimize the internal free-flow of talents, strengthen the management of core members and ensure the supply of reserve talent pool for the Company's sustainable development.	Increasing
Risk Relating to Intellectual Property Rights	**Risk of inadequate evidence in preserving intellectual property rights in case of infringement** Infringement of rights in the industry is common. The infringers may take actions such as concealment or destruction of infringed products, resulting in relatively great difficulties in preserving the rights, which may bring a certain economic loss to the Company.	The Company will reinforce its employees' awareness of intellectual property rights protection, further strengthen its efforts in monitoring the market for the protection of its intellectual property rights, and take timely actions in preserving and notarizing evidence in relation to the infringement.	Reducing
Risk Relating to Information Security	**Risk relating to information security** The Company highly values the protection of its own and the customers' privacy information and trade secrets. The Company also understands that the leakage, loss or stealing of its own or customers' sensitive information will affect itself and its customers.	The Company has established an information security system. The business operation employees' awareness of information security is strengthened through the provision of regular trainings on the prevention of information security risks. Technologies such as data encryption is used to control data access rights. To provide a higher level of security, "Red Zone" and "Yellow Zone" are established specifically for the research and development works of the Company itself and the customers.	Reducing

4. *Internal Control*

4.1 Internal Control Objectives

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

- to reasonably assure that the enterprise is operated and managed in compliance with the laws and regulations, its assets are safe, and its financial reports and related information are true and complete;

- to enhance operating efficiency and performance;

- to promote the achievement of the enterprise's development strategies.

4.2 Internal control

The Group has referred to the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework, and incorporated the Group's business management characteristics in the design of its internal control system, and has established an internal audit team to take responsibility of the internal control function. During the year ended 31 December 2018, the Group completed risk-oriented internal assessments on day-to-day fund management, financial reporting management, procurement and inventory, asset management, and business and debt collection procedures, and periodically followed-up with the rectifications of the problems identified by internal audit. Management and Audit Committee reviewed the internal control assessment reports, and assessed the effectiveness of the Group's risk management and internal control systems. The scope of the review included the Group's major control and risk management functions, such as financial control, operations control and compliance control.

The Board considered that, as at 31 December 2018, the Group had carried out internal control's "plan, review, report and follow-up" processes of the close-loop management system, that the Group's risk management and internal control systems were effective and adequate, that the Company's procedures on financial reporting and the compliance of the provisions under the Listing Rules were effective and adequate and that no significant areas of concern that might affect the Group's financial control, operations control, compliance control and risk management functions had been uncovered.

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

4.3 Inside information

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

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

G. INVESTORS AND SHAREHOLDERS RELATIONS

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

H. SHAREHOLDER'S RIGHTS

1. How shareholders can convene an extraordinary general meeting

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

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

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

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

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

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2018.

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 2018 are set out in the consolidated statement of comprehensive income on page 102.

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.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2018 are RMB1,733,152,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 206. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

(i) Review of our business

A review of the business of the Group for the year ended 31 December 2018 as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is set out in the sections headed "Chairman's Letter" and "Management Discussion and Analysis" on pages 3 to 5 and pages 40 to 49 respectively of this annual report.

(ii) Principal Risks and Uncertainties

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

(1) Financial Risk

Capital risk

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

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

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

Interest rate risk

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

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

Currency risk

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

Credit risk

The Group conducts business with credible third parties. The Group's policy is that all customers intending to conduct business on credit are required to pass a credit assessment procedure: in order to minimise the credit risk, the management of the Group has delegated specific persons responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(2) Business Risk

Market risk

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

Operational risk

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

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

The significant events which happened after the reporting date of 31 December 2018 affecting the Group are set out in the note 45 to the financial statements.

(iv) Future development of the Group

An indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Letter" and "Management Discussion and Analysis" on pages 3 to 5 and pages 40 to 49 respectively of this annual report.

(v) **Compliance with Laws and Regulations**

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

(vi) **Environmental Policies and Performance**

The Group encourages environmental protection and promotes awareness towards environmental protection in its daily business operation. For the year ended 31 December 2018, the Group is in compliance with international and national environmental standards and implemented green production policies to raise efficiency and minimize both energy consumption and pollutant discharge. The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the Group's business operation to enhance sustainability.

(vii) **Key Relationships with Employees, Customers and Suppliers**

As at 31 December 2018, the Group had a headcount of 62,495 employees (31 December 2017: 50,823). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market as well as the minimum wages guideline as prescribed by the local government from time to time.

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

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

PERMITTED INDEMNITY

Pursuant to the Company's articles of association, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. The Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors and officers of the Group during the year ended 31 December 2018.

DIRECTORS

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

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

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

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

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

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

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2018, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors.

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

Name	Capacity	Number of issued ordinary shares held	Number of underlying shares held under equity derivatives	Total number of shares	Total approximate % of the issued share capital as at 31 December 2018
Chen Yuhong	Beneficial owner, through controlled corporation, founder of discretionary trust and beneficiary of trust	266,192,861	–	446,192,861	18.09%
	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	–	180,000,000 *(note 1)*		
Tang Zhenming	Beneficial owner and beneficiary of trust	11,827,765	–	11,827,765	0.48%
Zhang Yaqin	Beneficial owner	1,500,000	–	1,500,000	0.06%
Gavriella Schuster	Beneficial owner	–	1,000,000 *(note 2)*	1,000,000	0.04%

Notes:

(1) Pursuant to the subscription of convertible notes with a total principal amount of HK$900,000,000 (the "Dan Capital CB") issued by the Company on 3 July 2017 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership (collectively known as the "Dan Capital CB holders"), a concert party undertaking was entered by Dr. Chen Yuhong and the Dan Capital CB holders to regulate their dealings in the shares of the Company on 24 May 2017. As such, Dr. Chen was deemed to be interested in 180,000,000 underlying shares of the Company held by the Dan Capital CB holders for the purposes of section 317 of the SFO. The interests in 180,000,000 underlying shares of the Company represent 50,800,000 and 1,292,000,000 ordinary shares which will be allotted and issued to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership respectively upon conversion of the Dan Capital CB.

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

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 1 January 2018	No. of share options granted during the year	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2018	Percentage of total issued ordinary share capital of the Company as at 31 December 2018	Total No of underlying ordinary shares interested in	Percentage of total issued ordinary share capital of the Company as at 31 December 2018	Note
Zhang Yaqin	3.27	3,000,000	–	(3,000,000)	–	–	–	–	(1)
Gavriella Schuster	5.22	–	1,000,000	–	1,000,000	0.04%	1,000,000	0.04%	(2)

Notes:

(1) These share options were offered on 16 December 2015 under the share option scheme of the Company adopted on 20 May 2013 and accepted on 31 December 2015. The share options are exercisable for a period of 3 years from the date of offer subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
16/12/2015	15/12/2018	30% of the total number of share options granted
16/12/2016	15/12/2018	30% of the total number of share options granted
16/12/2017	15/12/2018	40% of the total number of share options granted

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

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

Save as disclosed above and so far as was known to the Directors, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code, to be notified to the Company and the Stock Exchange.

As at 31 December 2018, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2018 (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 2018, 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 2018, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2018, 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 2018, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2018.

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 2018, no more share options granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding and 235,960,000 Shares granted to certain directors, employees and suppliers of the Group pursuant to the New Share Option Scheme were outstanding, representing 9.57% of the total issued ordinary share capital of the Company as at 31 December 2018. The terms on the exercise of such share options granted as set out in note 40 to the financial statements and notes 1 to 2 in the section headed "Directors' Interests in Shares" above.

During the reporting year, an aggregate of 38,040,000 share options were exercised, no share options were lapsed and 1,000,000 options has been granted under the New Share Option Scheme.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme and the New Share Option Scheme as at 31 December 2018.

SHARE AWARD SCHEME

The share award scheme (the "Share Award Scheme") was adopted by the Company on 10 December 2018. The Share Award Scheme shall be valid and effective for a period of 10 years commencing on 10 December 2018. The purposes of the Share Award Scheme are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Details of the Share Award Scheme are set out in the announcement of the Company dated 10 December 2018 and note 40 to the financial statements.

During the year ended 31 December 2018, a total consideration of approximately HK$86,842,000 has been used to acquire 22,078,000 shares of the Company from open market by the independent trustee of the Company.

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2018.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 67.43% of the Group's total turnover and the Group's largest customer accounted for approximately 53.09% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 24.72% of the Group's total purchases and the Group's largest supplier accounted for approximately 10.11% 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 2018, 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	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Dan Capital Tangkula Limited Partnership *(Note 1)*	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	446,192,861	18.09%	16.38%
Dan Capital Kunlun Limited Partnership *(Note 1)*	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	446,192,861	18.09%	16.38%
Prime Partners Development Limited *(Note 2)*	Beneficial interest	140,572,725	5.70%	5.16%
Milestones Asset Management Limited *(Note 3)*	Interest of controlled corporations	134,630,690	5.46%	4.94%
CSI Profit Share Scheme SPC – Phase One SP *(Note 3)*	Beneficial interest	134,630,690	5.46%	4.94%
OP Investment Management Limited *(Note 3)*	Investment manager	134,630,690	5.46%	4.94%
UBS Group AG *(Note 4)*	Person having a security interest in shares	28,571,000	1.16%	1.05%
	Interest of controlled corporations	192,528,773	7.81%	7.06%
UBS AG *(Note 4)*	Beneficial interest	5,482,773	0.22%	0.20%
UBS Asset Management (Hong Kong) Ltd *(Note 4)*	Beneficial interest	40,620,000	1.65%	1.49%
UBS Asset Management Trust Company *(Note 4)*	Beneficial interest	90,000	0.00%	0.00%
UBS Fund Management (Luxembourg) S.A. *(Note 4)*	Beneficial interest	146,254,000	5.93%	5.37%
UBS Fund Management (Switzerland) AG *(Note 4)*	Beneficial interest	82,000	0.00%	0.00%

* *The total number of issued share consists of 2,466,312,666 Ordinary Shares and Convertible Notes which could be converted into 257,994,692 Ordinary Shares.*

Notes:

(1) Pursuant to the subscription of convertible notes with a total principal amount of HK$900,000,000 (the "Dan Capital CB") issued by the Company on 3 July 2017 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership (collectively known as the "Dan Capital CB holders"), 50,800,000 and 1,292,000,000 ordinary shares which will be allotted and issued to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership respectively upon conversion of the Dan Capital CB. A concert party undertaking was entered by Dr. Chen Yuhong and the Dan Capital CB holders to regulate their dealings in the shares of the Company on 24 May 2017, as such, Dan Capital CB holders were deemed to be interested in 264,692,861 underlying shares of the Company held by Dr. Chen for the purposes of section 317 of the SFO.

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

(3) Milestones Asset Management Limited ("Milestones") is deemed to be interested in 134,630,690 ordinary shares in the Company through its interest in the entire issue of management shares in CSI Profit Share Scheme SPC – Phase One SP ("the Profit Share Fund"). The Profit Share Fund is an employee owned fund comprises the Company's management and core talents. Milestones has delegated the investment management of the Profit Share Fund to OP Investment Management Limited.

(4) UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management Trust Company, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG and UBS Securities LLC are the wholly-owned subsidiaries of UBS Group AG. Accordingly, UBS Group AG is deemed to be interested in the long positions of 192,528,773 shares in the Company held by these companies as disclosed above.

Save as disclosed above, as at 31 December, 2018, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

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

During the year ended 31 December 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.

EMOLUMENT POLICY

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

The Company has adopted a share option scheme and share award scheme as an incentive to the Directors and eligible employees, details of the scheme is set out in note 40 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board

Dr. Chen Yuhong
Chairman & Chief Executive Officer

Beijing, 20 March 2019

With the vision of "becoming a world-class leader" and the mission of "inclusive I.T. services to promote the global digital economy", the Group is committed to the core values of "keeping true heart of kindness, determination and perseverance, striving for success, sharing and growing with customers". The Group strives to achieve the harmonious development of corporate values, employee values, investor values and social values. The Group actively advocates and practices excellent corporate behavior and focuses on its own impact on society and the environment. It also proactively assumes corporate social responsibility and helps create a more friendly and sustainable society.

In the process of its rapid business growth, the Group actively enhances the development of environmental, social and governance of the Board, forming a corporate governance structure with clear power and responsibilities, good division of labor, effective checks and balances, and scientific decision-making. The Board assumes the overall responsibility of the Group for its environmental, social and governance aspects. To further implement the environmental, social and governance work, the Environmental, Social and Governance Working Group, which reports to the Board, has been established. It is responsible for implementing the Board's strategies and policies and facilitating the management and implementation of environmental, social and governance matters. The Group has compiled and summarized its environmental, social and governance issues, which have been included in this report in accordance with the requirements of Appendix 27 to the Listing Rules (the "Environmental, Social and Governance Reporting Guide"). The governance affairs of the Group are set out in the Corporate Governance Report section of this annual report. This report covers the period from 1 January 2018 to 31 December 2018 (the "Reporting Period") and covers the headquarters and affiliated companies of Chinasoft International Group (hereinafter referred to as "the Group").

STAKEHOLDER IDENTIFICATION AND COMMUNICATION

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

Stakeholders	Communication channels	Expectations
Government and regulatory bodies	Study on policy issues and guidance documents, participate in training, seminars and symposiums organized by relevant authorities and associations	– Compliance with laws and regulations – Integrity in the business – Assured product safety – To drive forward the technological progress
Shareholders and investors	Telephone, mail, face-to-face communications	– Continuous improvement of business performance – Operations compliance management – Timely and full disclosure of information
Customers	Telephone, email, face-to-face communication	– To enhance service and product quality, and to accelerate product innovation and upgrade – To ensure the security of customer information – To meet the diverse needs of customers
Employees	Organization of questionnaires, employee discussions, and face-to-face communication with employees	– To protect the interests of employees – Caring for the health of employees – Providing training and learning opportunities – Reasonable promotion path and effective performance incentives
Suppliers	Telephone, mail, face-to-face communication	– Open, equitable and fair procurement – Fulfillment of contracts, creation of mutual benefits and win-win situations

Determination of Importance Issues

To further identify key areas of corporate environmental, social and governance practices and information disclosure, the Group relies on the requirements of the "Environmental, Social and Governance Reporting Guide" and the "Environmental, Social and Governance Reporting Guidelines" of the Hong Kong Stock Exchange. The Environmental, Social and Governance Working Group summarizes and identifies the environmental and social issues and issues of the stakeholder's concerns to conduct its significance assessment. Such allows the Group to disclose its operational management related information as accurately and comprehensively as possible.

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

A. ENVIRONMENT

As a leading global software and information technology service provider, the Group puts its focus on corporate social responsibility, advocates and practices outstanding corporate citizenship, and strives to pursue harmonious development of corporate value, employee value, investor value and social value. Despite the small impact of our operations on the environment, we continue to implement the environmental philosophy of green innovation, continuously launch innovative green office initiatives to promote energy conservation and emission reduction, aiming at minimizing the consumption of energy resources and emissions in our daily operations. At the same time, the Group strictly adheres to national laws and regulations and industry policies. During the Reporting Period, the Group did not have any major non-compliance in relation to environmental laws and regulations.

A1 Emissions

As a software and information technology service company, the Group's environmental impact is mainly due to the consumptions in its office space. Emissions are mainly from greenhouse gases of its energy consumption, domestic sewage, as well as hazardous and non-hazardous waste ranging from waste computer (electronic waste) to household waste, etc. The Group advocates green office, low carbon management, and encourages employees to actively participate in the Company's green initiatives. By setting up a pantry and equipping electric equipment such as microwave ovens and refrigerators, staff are encouraged to eat at staff canteens or bring their meals to work to reduce the emission of white waste (such as disposable lunch boxes). Through posting e-waste logos, sorting and recycling household waste and electronic waste, and finding qualified enterprises for centralized recycling, the Group has reduced its waste of resources and environmental pollution. In addition, the Group promotes austerity and economy use of resources, focuses on reuse of resources, and continues to carry out management initiatives, such as maintenance of failed assets with spare parts procurement, recycling of end-of-life host memory and hard-drive strips.

Disclosure of Emission Information

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

Note: The statistical scope of the Company's emissions data includes the actual data generated by the subsidiaries of Chinasoft International Group registered in the PRC but does not include the data from the overseas offices. Of which, the increase in power consumption and aircraft mileage due to growth in business, increased office space and number of employees has led to an increase in greenhouse gas emissions. However, the overall increase was lower than the growth rate in business volume. In addition, the discharge of domestic sewage and office garbage is directly related to the number of employees, and the overall increase level is lower than the growth rate of employees.

A2 **Use of Resources**

The Group advocates green office, integrates the concept of low-carbon management into its daily operations, actively takes up the responsibility for the environment, and drives the Group and its customers towards an energy-efficient and low-carbon office environment. For example, by launching web-based operations or dual screen operations, we promote the use of electronic documents, reduce unnecessary printing, use second-hand paper for ordinary printing, thereby reduce the amount of paper used. From such, the Group realizes cost saving and environmental protection.

In addition to continuing its past years of energy-saving and environmental initiatives, the Group has further developed a series of activities, aiming at reducing resource consumption and reducing energy consumption:

- The "Zero Distance Innovation" event was held, and the Best Cost Management Award was set up. In particular, incandescent lamps were gradually replaced by LED lamps, saving electricity bills and reducing purchasing costs by a total of RMB468,000 for each year.

- Nationwide implementation of the "five turn-offs", that is, requiring the security inspection sites to turn off the lights, turn off the display, turn off the direct drinking machine, turn off the microwave oven, and turn off the air conditioner. Electrical equipment at the venues are shut down in phrases according to the staff overtime situations, thus reducing power consumptions.

- Use the original workspace and furniture resources as much as possible during the relocation/ renovation of the premises. In 2018, the office space covers up to 2,514 pieces of furniture (including tables and chairs, document cabinets, conference tables and chairs, idle folding tables, etc.).

Disclosure of Resource Usage Information

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

Note: The statistical scope of the Company's resource usage data includes the actual data generated by the subsidiaries of Chinasoft International Group registered in the PRC but does not include the data from the overseas offices. Of which, the growth in business volume and the increase in office space and employees has led to increased electricity and water consumption. However, the overall increase was lower than or equal to the growth in business volume.

A3 Environment and Natural Resources

As an enterprise with a focus on environmental protection, and as a software and information technology service provider, the Group does not involve in any large-scale production processes and has no business which may incur significant impacts on the environment and natural resources. However, the Group continues to innovate and invest in environmental protection, research and development of energy-efficient products, and is committed to helping society reduce carbon emissions. During the Reporting Period, we vigorously developed the "Digital Environment" business and committed ourselves to improving the overall standard of environmental management. By continuously improving cloud computing technology to ensure the business continuity of "Digital Environment" projects, we can substantially save power costs, air conditioning installation costs and energy consumptions. At the same time, such projects can improve office efficiency, save information costs, such that we can improve our environmental management innovation and our efficiency in environmental law enforcement.

In addition, the Group strives to further reduce the impact on the environment and natural resources in its daily operations. Our initiatives include focusing on employees' feelings and environmental protection; prioritizing environmental materials for renovation projects to reduce environmental pollution; having a large number of shared parking spaces around the working areas to promote low-carbon commute for employees; and using new energy electric vehicles as our new business vehicles to reduce exhaust pollution.

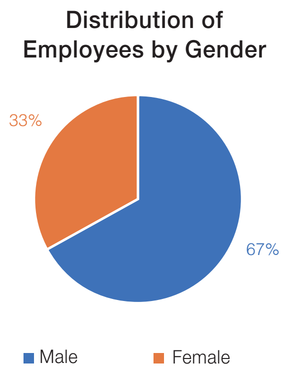
B. SOCIETY

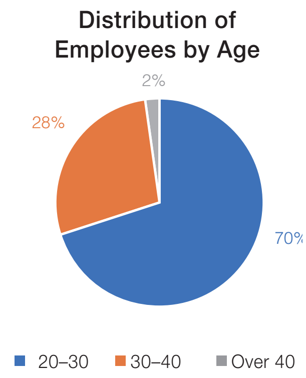
The Group is committed to fully assuming its corporate social responsibility, shaping and sharing its corporate culture, paying attention to the care for and growth of employees, as well as creating a good working environment for its staff. To provide better service, the Group continues its service innovation, with a focus on service quality and supplier management. The Group also regulate its corporate operations, gives care to the community, strives to achieve employee happiness, partner satisfaction and social recognition, and endeavors in reaching a harmonious development which maximizes the interests of its stakeholders.

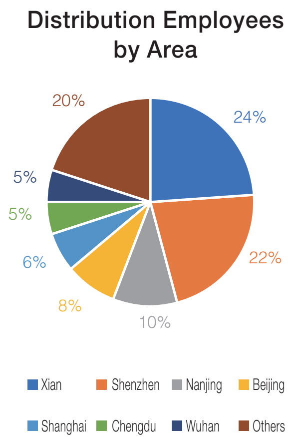
B1 Employment

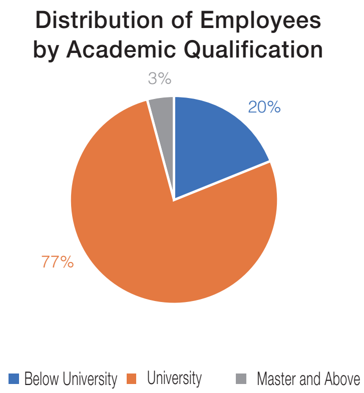
The Group strictly adheres to labor laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Regulation on Work-Related Injury Insurances. With reference to the actual situation of the Company, the Employee Handbook was further revised in March 2018 to establish equal labor relations, protect employees' rights and interests in accordance with the law and shape the core values of the Company.

Adhering to the concept of "Talent as the core competitiveness", the Group attaches importance to diversity management in terms of gender, ethnicity, age, academic qualifications and other characteristics. It adopts various initiatives of new recruits and social recruits to recruit talents, thereby promoting diversity in our staff structure. As of 31 December 2018, the Group had a total of 62,495 employees across the nation and in various countries around the world. Among them, ethnic minorities such as Hui, Tujia, Manchu and Zhuang accounted for about 3.6% and employees with disabilities accounted for about 0.3%.









The Group has considered the training of fresh graduates as an important development strategy. In 2018, a total of 1,983 fresh graduates joined the Chinasoft family. The Company took the training philosophy of "one year to lead yourself, two years to lead colleagues, three years to lead a team", and carried out attribution development sessions, pre-job trainings and president symposium to help the fresh graduates quickly integrate into the team. At the same time, the events of "Monthly Star", "Top Ten Outstanding School Recruitment "and "Outstanding Fresh Graduates" were held to motivate fresh graduates to set their benchmark and create a good development environment for fresh graduates.

During the Reporting Period, the Group, taking staff development and atmosphere setting as its focus, organized large-scale events nationwide to enhance the organizational atmosphere, highlighting the cultural care of the enterprise to activate the enthusiasm of employees and strengthen our brand influence. Such events include:

“Digital World • Coding the Future” and be qualified workers in the digital economy

The second Global Programmer Festival was held in response to the “Belt and Road” initiative to celebrate the 40th anniversary of reform and opening-up. The Group once again acted as the executing body of the event. Top overseas and domestic software industry leaders, elite programmers from around the world, renowned academicians and scientists in the domain, as well as outstanding Chinese programmers, gathered at Xi'an and participated in the event. Four sub-sites, namely the US Silicon Valley, Indian Bangalore, Beijing and Nanjing, held the ceremony and interacted with each other.

The offline counseling activities for children’s fun creative programming tournament of the 2nd Global Programmer’s Day - namely "JointForce Cup" Programmer Competition - were held simultaneously in Xi'an, Nanjing, Shenzhen, Wuhan and Chengdu, attracting nearly a thousand families. Through professional instructor lectures, various parent-child interactions, and rich gifts, child programmers demonstrated their skills and won the unanimous praise from their teachers and parents. The programmer spirit inspired more children to learn and love programming, thereby inheriting and realizing the digital ideal.

“With togetherness brings sustainable development, with joyful growth brings brilliant outcomes” – A feast which connects our staff to our working partners

The Group promotes “Partners, Ecology, and Celebrate Success Together” to encourage employees to “create sharing and grow together” with the Company. In 2018, Chinasoft International JointForce Carnival and New Year Meeting was held, opening in 19 cities nationwide. More than 1,000 customers, the partners of the JointForce Cup, and more than 5,000 staff representatives participated in events around the world, thereby enhancing staff cohesion and sense of belonging.

With atmosphere setting, prioritized tasks and enterprise culture as the center, the Group carried out and promoted a series of quarterly recognition and sharing activities in relation to best practices, excellent group buildings and excellent DNAs. Through matching with our business development and promoting our brand image delivery, such activities enhanced our awareness of technology research, and created a strong technical atmosphere among our staff in multiple dimensions. Around the growth and atmosphere of employees, the Group carried out activities such as "JointForce Cup Spring Jogging", "Happy Run and Enjoy Life", "Dumpling Feast and Fun Future", "Dragon Boat Festival Happy Party" and "Family Reunion Mid-Autumn Festival to unite talent and win our future".

The Group continues to improve its talent development and talent recognition system. It has a compensation incentive system based on competitiveness, fairness and motivation, as well as a performance management system based on a results-oriented, objective and impartial hierarchical evaluation approach. Such systems promote fairness and democracy in management, motivate employees to work positively, and ensure the realization of the Company's annual plans and business goals.

B2 Health & Safety

The Group has always attached importance to the health and safety of employees and adhered to the principle of "taking prevention as the major approach and prioritize precautions over contingencies", thereby creating a healthy and safe working environment for its employees. The Company provided effective medical protection for its employees and organized medical examinations for employees during the Reporting Period. Supplementary commercial insurances were purchased for employees.

The Group places its focus on employees' health and safety and establishes a "prevention-oriented" and "quickly responding" operation mechanism. Weekly publicities were held, EHS empowerment were arranged among entry level officers, and content-rich 3 + 1 activities were regularly organized. Meanwhile, employee forums were held to understand the opinion of employees. The Group has also enhanced its employee management and comprehensively implemented its management approaches in the areas of risk prevention, channel uncloak, dedicated management and atmosphere improvement to improve employees' satisfaction.

B3 Development and Training

The Group puts heavy focuses on the development and cultivation of talent and is committed to maximizing the development potential of employees, thereby helping them realize their own value. The Company pays attention to the development of employees in the aspects of new employee induction training, employee management during the probation period, the employee skills upgrading, as well as the key role developments. Such an approach has formed a systematic training mechanism. During the Reporting Period, the Group has conducted various training and development works, such as professional salons, project simulation exercises, knowledge competitions, technical community exchanges, "Pioneers" expert pools, technology bootcamps, etc. Those works have strongly supported the Group's strategic goals of FP mode transformation, efficiency improvement, as well as the approach of "changing camels into lions".

"Pass the New Fire and Win Our Future Together" to create greater values

The 2018 Chinasoft International Project Manager Conference focused on the Company's development priorities. The conference selected and commented on several excellent cases, thereby establishing the benchmark to encourage innovations and improvements. By identifying and replicating best practices, promoting knowledge and experience, the Group has also created a good atmosphere for sharing and growing together. Focusing on the "new", the conference positioned the landscape of welcoming and creating new ideas and innovations. Under the premise of laying a solid foundation, the conference encouraged employees to take up new challenges, change their thinking to adapt to new changes, create value for customers and thus achieve a win-win situation together.

"Iterative Innovation and Armed Thinking" to unleash organizational potential

In 2018, the Company introduced the Design Thinking course (DT) from Stanford University D. School to develop ideas and optimize practice with innovative methodologies that swept the Silicon Valley in the United States. Employees across the Group competed for the experience and joined the DT training camp. Through the lectures by DT instructors, each thousand employees have emerged a DT instructor, while every 500 employees have emerged an innovative idea. This innovation storm blows throughout the year.

During the Reporting Period, the Group also conducted information security service trainings, EHS internal auditor trainings, information system integrations and service project managements, AAR trainings, as well as dark horse training camps and cultural seminars for cadres. Such trainings have enhanced the skills and work performance of employees.

B4 Labor Standards

The Group strictly adheres to labor laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Regulation on Work-Related Injury Insurances, and strictly abides by the management policies established in accordance with the international policies for the prevention of child labor and forced labor, as well as the relevant policies and regulations established by the countries and locations where our operation are located. During the Reporting Period, the Group insisted on standardizing its employment according to law, adjusted the responsibility planning of the Company's departments with reference to the actual situation of the Company, and effectively improved its corporate governance. Employee manuals regulate the management of labor relations, discipline, attendance, etc. The recruitment and approval process have been optimized, while the overtime and rest system has been enhanced. Following the principle of impartiality, truthfulness and accuracy, the Group also standardized its financial reimbursement practices of the business units of its subsidiaries. Labor disputes were timely handled in accordance with the law and regulations, effectively protecting the legal rights of the Company and employees.

B5 Supply Chain Management

The Group strictly adheres to the internal "Management Measures for Company Procurement and Tendering", and strictly abides by the principle of transparency, thereby ensuring the fair, equitable and open procurement of suppliers. The Group has clearly defined and strictly adhered to its supplier eligibility standards, periodic assessments, withdrawals and other mechanisms. In the supplier selection process, priority is given to high-quality green and energy-saving brands, products and green suppliers. At the same time, the Group has been constantly improving its procurement standards and systems, comprehensively taking the energy-saving and environmental factors of product design, procurement, production, packaging, logistics, sales, service, recycling and reuse into its account. As such, the Group has implemented its social responsibilities, such as environmental protection, energy saving and emission reduction together with the upstream and downstream enterprises. During the Reporting Period, the Group was not aware of any significant actual or negative impact from its major suppliers on business ethics, environmental protection, human rights and labor practices.

B6 Product Responsibility

The Group always adheres to the operation idea of "sharing success with clients" and is committed to providing a full range of services to society by relying on its own software service capabilities, thereby promoting the digitization process of government, industrial Internet, and large customers. We provide quality services through technological innovations. Focusing on its quality of service, the Group continues to carry out quality Red May campaign, shoulders the mission of dissemination of quality knowledge, and improves its customer satisfaction. We pay attention to intellectual property protection policies, respect the value and interests of customers' information assets, and ensure information security. During the Reporting Period, the Group was awarded the 7th rank in the "2018 Top 100 China Enterprises in comprehensive competitiveness of software and information technology services", and was given the honors of "2018 Most Influential Enterprises in software and information services in China" and "2018 Top 10 Innovative Software Enterprises", etc.

"Inclusive ITS to empower the software industry ecosystem"

In 2018, the Group's JointForce launched "Cloud Services" to create a comprehensive solution for government software service needs. "Cloud Software Park" was continuously launched, covering provinces and cities like Jiangsu, Shandong, Hubei, Anhui, Chongqing, Zhejiang and Fujian, gradually establishing the JointForce software ecosystem, and grew alongside the Chinese software industry.

"Helping the Chinese manufacturing sector to become bigger and stronger"

In 2018, the Group addressed the strategy of "China manufacturing 2025" and continued to refine the "Hive" industrial internet enabling platform, targeting the development shortfalls of domestic industrial software, linking global quality intelligent manufacturing resources, and accelerating the creation of a global collaborative innovation ecosystem for industrial software. Such platform has won the recognition of "Excellent Industrial Internet Platform".

"Supporting the Digital Transformation of Large Customers"

In 2018, the Group continued to make breakthroughs in big data, Internet of Things, artificial intelligence, thereby providing quality services to Microsoft, Tencent, Ping An, Alibaba and other companies. The Group also continuously exported "digital kinetic energy" to the transportation, finance, healthcare, e-commerce, smart city and other industries.

"Zero Distance Innovation"

In 2018, the Group launched the "Zero Distance Innovation" incentive program and advocated that the project team should stand on the customer's perspective on the basis of fulfilling the contract and obtaining the customer's approval. Through analysis and thinking, the customers' pain points and shortcomings were identified and positioned. Better approaches and solutions were proposed to our clients and were subsequently implemented. During the Reporting Period, the Group has achieved good results in service innovation, independent project delivery, as well as the enhancement of quality and efficiency.

“Continuous improvement of service quality and joint efforts to break the cloud market boundary”

Over the past five years, the Group has continued to improve the quality of its outsourcing services provided to Huawei. The Company was awarded “Huawei Cloud Best Partner” and entered the Huawei Supplier Development Program to become one of its trusted strategic partners. At the same time, the overseas strategic cooperation between the two sides has achieved substantial breakthroughs in Malaysia, India, Myanmar and other places.

“Protect intellectual property rights and put focus on information security”

In providing products and services to customers, the Group strictly adheres to its customer information security management systems and regulations, and continuously invests large amounts of funds to improve the standard of technical protection. The Group focuses on customer information confidentiality management, clarifies the information security responsibility of its employees, and conducts regular information security training and publicity to gain higher trust from its customers. The Group has been improving its own intellectual property management system, encouraging technological innovation through setting up technical innovation awards, enhancing the protection of its own information assets, and educating its employees to comply with information security regulations and professional ethics. In addition, the companies within the Group have successively obtained ISO27001 (Information Security Management) certification, while actively implementing ISCCC (China Information Security Certification Center) certification in relation to information security services, thereby laying the foundation for a standardized management of information security.

B7 Anti-corruption

To ensure compliance, the Group has established clear management systems and policies, provided a variety of reporting channels, clarified the processing, investigation and feedback process of employees' complaints, thereby straining the integrity risk. In order to prevent commercial bribery in procurement, the Group has declared to all suppliers and partners that they shall not work with Chinasoft International through any improper means. At the same time, a good faith clause and penalties for breach of contract were added to the procurement contract, effectively eliminating bribery possibilities. During the Reporting Period, the Group was not aware of any significant violations by employees in relation to relevant laws and regulations.

B8 Community Welfare

As a leading company in the industry, the Group is committed to its social responsibility and is actively engaged in social welfare activities. During the Reporting Period, the Group carried out a charity sale of long-stayed, unclaimed bikes in the park’s garage, and donated all the charity sale proceeds to its counterpart poverty alleviation primary school - the Dongjiayan TianJing Village Center School in Lantian County. At the same time, the Group participated in the “Star Love Transfer, Sharing Cooperation” auction organized by Chengdu Charity Federation, and was awarded the title of “Caring Enterprise”.

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

Dr. Tang Zhenming (唐振明), aged 56, is the senior vice president of the Company. He is responsible for the Group's training business. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Institute of Technology (北京理工大學) in 1994. Prior to joining the Company on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to July 1998 and by Chinasoft Cyber Information Technology Co., Ltd (Beijing) as deputy general manager from August 1998 to March 2003. Dr. Tang was also employed by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995.

Non-executive Directors

Dr. Zhang Yaqin (張亞勤), aged 53, was appointed on 31 December 2008. Dr. Zhang Ya-Qin is currently the President of Baidu, Inc. (listed on NASDAQ, NASDAQ: BIDU) since September 2014, in charge of emerging business and basic technology system and also the Chairman of Baidu R&D Centre in U.S. Prior to joining Baidu, Dr. Zhang served various positions at Microsoft Corporation (listed on NASDAQ, NASDAQ: MSFT) from January 1999 to September 2014, including: the corporate vice president of Microsoft Corporation, the chairman of Microsoft Asia-Pacific Research & Development Group responsible for driving Microsoft's overall research and development efforts in China and the Asia-Pacific region, the managing director and the chief scientist as well as an original founder of Microsoft Research Asia where he was in charge of Microsoft's mobile and embedded division in Microsoft's headquarters. Dr. Zhang is also a member of Committee 100, a group of leading Chinese- Americans to promote the political, science, social and economic exchanges between the US and China. Dr. Zhang was awarded a fellow of the Australian Academy of Technology and Engineering in December 2017, and he has also been a fellow of the Institute of Electrical and Electronics Engineers since March 1997. Dr. Zhang obtained his bachelor's degree in radio electronics and master's degree in telecommunication and electrical systems from the University of Science and Technology of China (中國科技大學) in July 1983 and January 1986 respectively. In February 1990, Dr. Zhang obtained his Ph.D. degree in electrical engineering from George Washington University, Washington D.C. Dr. Zhang has been an independent non-executive director of a number of companies, including AsiaInfo Technologies Limited (listed on the Stock Exchange, stock code: 1675) since August 2018 and Tarena (listed on NASDAQ, NASDAQ: TEDU) since April 2014. Dr. Zhang served as an independent non-executive director of ChinaCache (listed on NASDAQ, NASDAQ: CCIH) from September 2010 to June 2017 and China Digital Video Holdings Limited (listed on the Stock Exchange, stock code: 8280) from January 2011 to June 2018.

Mr. Gao Liangyu (高良玉), aged 53, is the chairman of the board of Gao Zheng Asset Management Limited (高正資產管理有限公司) since July 2017. Mr. Gao was served as the chairman of the board of CSOP Asset Management Limited (南方東英資產管理有限公司) since March 2013, engaging in asset management business. Prior to joining CSOP Asset Management Limited, Mr. Gao was previously the deputy general manager at China Southern Fund Management Co., Ltd. (南方基金管理有限公司) in March 1998 and became the general manager of the same company from September 1998 to March 2013, responsible for the management and operation. Mr. Gao acted as the deputy division chief of the Public Offering Supervision Department of the China Securities Regulatory Commission (中國證券監督管理委員會) from March 1993 to March 1998, the section chief of the Finance Management Department of the People's Bank of China (中國人民銀行) from February 1991 to March 1993, studied in the Postgraduate Department of Financial Research Institute of the People's Bank of China from September 1988 to February 1991, and an officer of the Audits Department of Nanjing Agriculture University (南京農業大學) from July 1986 to August 1988. He served as an independent non-executive director of Jutal Offshore Oil Services Limited (巨濤海洋石油服務有限公司), a company listed on the Stock Exchange (stock code: 3303), from 2009 to 2015. Mr. Gao obtained his bachelor's degree in agricultural economics from Nanjing Agricultural University in July 1986.

Mrs. Gavriella Schuster, aged 53, has over the past 20 years managed and deployed a number of programs and products as well as licensing, pricing and go-to-market initiatives for Microsoft Corporation ("Microsoft"). She has consistently delivered high business growth through Microsoft's commercial segments, ranging from small business to global enterprise, leading sales and marketing teams across its Server and Cloud business, Windows Client Commercial business, Enterprise Services, licensing sales and marketing, field business development, training initiative development, segment marketing, worldwide partner marketing and training strategies, and worldwide operations. Mrs. Schuster has been the corporate vice president of Microsoft One Commercial Partner since June 2016. From May 2011 to May 2014, Mrs. Schuster was the general manager of US Cloud & Enterprise commercial business at Microsoft. From August 2006 to May 2011, Mrs. Schuster was the general manager of global product management of Windows Commercial business at Microsoft. From March 2001 to August 2006, Mrs. Schuster was a senior director of US enterprise licensing sales & marketing at Microsoft. From July 1999 to March 2001, Mrs. Schuster was a director of global Microsoft Enterprise Services at Microsoft. From February 1997 to July 1999, Mrs. Schuster was the group manager of global customer segment marketing at Microsoft. From May 1996 to February 1997, Mrs. Schuster was the group manager of global solution provider and training program for partners at Microsoft. From November 1995 to May 1996, Mrs. Schuster was the operations manager of Microsoft Partner Programs at Microsoft. Mrs. Schuster earned her bachelor's degree in Social Psychology from the University of Michigan in 1988.

Independent Non-executive Directors

Mr. Zeng Zhijie (曾之杰), aged 51, was appointed on 21 April 2003. Mr. Zeng is currently the founding Partner of Oriza-Rivertown Capital (元禾厚望成長基金) and the chairman of Shenzhen Hongtai Fund (深圳鴻泰基金). He has been active in the venture capital industry for twenty years. At present, Mr. Zeng serves as independent director and director for two listed companies: the independent director of Chinasoft International Limited (SEHK) and the director of CTS International Logistics Corp Ltd. (Shanghai Stock Exchange). Mr. Zeng obtained a bachelor's degree in economics from the University of Nagasaki, Japan, and a master of science degree in management from Stanford University.

Dr. Lai Guanrong (賴觀榮), aged 56, was appointed on 2 June 2015. Dr. Lai is currently the vice chairman of ABC Life Insurance Co., Ltd. (農銀人壽保險股份有限公司) since 2013. Dr Lai is also the independent director of Xin Yuan Enterprises Group Limited (信源企業集團有限公司) and is the chief economist of Shenzhen CMAF Management Co., Ltd (深圳市遠致富海投資管理有限公司) since 2018. Dr. Lai graduated from the School of Economics of Xiamen University in 1983 with a bachelor's degree, specialising in finance. He was awarded a master's degree by research by the Graduate School of the People's Bank of China (now known as the PBC School of Finance of Tsinghua University) in 1986. He was awarded a doctor's degree by research by the School of Economics of Xiamen University in 2001. He also took part in the 8-month special topic training "Dialogue between financial capital and technological innovation" organised by Tsinghua University in 2014. Dr. Lai was the secretary and deputy head of the office of the Fujian Province branch of the People's Bank of China. He led the establishment of the first securities company in Fujian and one of the first batch of securities companies in China, Minfa Securities Company Limited (閩發證券有限公司), and acted as the deputy general manager leading its work after the establishment of the company. He has led and successfully planned the merger and acquisition of listed companies, namely the merger of Xuji Electric (許繼電氣) (stock code: 000400SZ) with another listed company, Tianyu Electric (天宇電氣). In 1993, Dr. Lai led and successfully planned the listing of the earliest listed Fujian company, Fuyao Glass (福耀玻璃) (stock code: 600660SH); he also participated in the acquisition of Shenzhen Puruikang Biotechnology Co., Ltd (深圳市普瑞康生物技術有限公司). In 1996, Dr. Lai acted as the general manager of Fujian Min Qiao Trust Investment Company Limited (福建閩僑信託投資有限公司) and took over its management. After one year, Min Qiao Trust, which had been on the brink of bankruptcy, became the trust company with the highest gross profit and return on net assets ratio in the province. He has also been the president of Huafu Securities Company (華福證券公司), a provincial owned enterprise. When Dr. Lai was involved in the setting up of Jiahe Life Insurance Co., Ltd. (嘉禾人壽保險股份有限公司) and acted as its legal representative and president, he and the shareholders successfully introduced the Agricultural Bank of China as a controlling shareholder of Jiahe Life Insurance, together leading Jiahe Life Insurance into a new stage of development.

Professor Mo Lai Lan, aged 60, obtained her bachelor and Ph.D degrees in Accountancy from the Chinese University of Hong Kong and M.B.A. degree from Birmingham University in U.K. She is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Professor Mo joined City University of Hong Kong in 2011 as Professor of Accountancy and served as the Ph.D Program Coordinator for the Department of Accountancy during 2013-2015, and as Internship Coordinator from 2015 to 2017. She is now the Associate Director of the Research Centre for Sustainable Hong Kong (CSHK), a strategic applied research center established at City University of Hong Kong which aims at conducting impactful research in response to real-life sustainability challenges in Hong Kong and the Region. Previously, Professor Mo served as Professor and Head of the Department of Accountancy at Lingnan University from 2006 to 2011. She also had teaching and research experiences with other research universities. Prior to joining the academia, Professor Mo worked at an international leading CPA firm as a professional auditor and a listed company as an internal auditor. Professor Mo was a member of the Auditing & Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants from 2012 to 2017. Among other responsibilities, the Committee formulates auditing standards for listed companies in Hong Kong. Currently, she is a member of Board of Review (Inland Revenue Ordinance, Hong Kong) and a Specialist of Hong Kong Council for Accreditation of Academic & Vocational Qualifications (HKCAAVQ). Professor Mo's research focuses on audit quality, tax compliance and corporate governance. Many of her papers represent pioneer works on Accounting research published in leading international research journals. She also co-authored a book entitled "A Dream of the Red Chambers and Corporate Governance of Family Businesses"（紅樓夢與家族企業管治）and co-edited a book entitled "Transcending the Bottleneck – The Hong Kong Accountancy Profession"（突破瓶頸－香港會計業）. Professor Mo is currently an Associate Editor of the Asia-Pacific Journal of Accounting and Economics. She is also a member of the Editorial Board of AUDITING: A Journal of Practice & Theory and Journal of International Accounting Research which are leading research journals in Auditing and International Accounting respectively.

SENIOR MANAGEMENT

Mr. Simon Chung (鍾鎮銘), aged 58, is the global chief operating officer of the Company. He is responsible for the Company's strategic planning and overseas business development. He has over 20 years of experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom, finance and high-tech sectors. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. Prior to joining the Company, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005.

Mr. Simon Zhang (張崇濱), aged 56, is the senior vice president and chief human resources officer of the Company. He is responsible for the human resources management of the Company. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Company, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an) from 1997 to 1999. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino-US joint venture. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phoenix Medical Equipment Company.

Ms. Leong Leung Chai (梁良齊), Florence, aged 39, is the qualified accountant, company secretary and authorised representative of the Company and was appointed as the deputy chief financial officer of the Company in May 2017. She joined the Company in November 2005 to serve as the Financial Controller of the Group, and became the Company Secretary of the Company and an authorised representative since August 2013. Ms. Leong performs the duties of company secretary, and is responsible for the Group's regulatory compliance and financial management and reporting. Before joining the Company, Ms. Leong worked in an international audit firm for over 5 years where she was mainly responsible for financial auditing and internal control reporting. She has over 15 years' experience in financial auditing, listing compliance and corporate governance. Ms. Leong is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree (Hons) in Accountancy.

COMPANY SECRETARY

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

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINASOFT INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Chinasoft International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 102 to 205, which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS – CONTINUED

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment	
We have identified goodwill impairment assessment as a key audit matter because determining the recoverable amount of relevant cash-generating units (or groups of cash-generating units) requires a significant degree of management judgement and may be subject to management bias. The determination of whether the carrying amount of goodwill is recoverable requires management to make significant estimates such as the discount rates, forecasts of future revenue growth rates and gross margins based on management's view of future business prospects. Details of goodwill and the corresponding key estimation uncertainty on its impairment assessment are disclosed in notes 15 and 4 to the consolidated financial statements, respectively.	Our procedures in relation to goodwill impairment assessment, performed on a sample basis, included: • Assessing the valuation methodology; • Challenging the appropriateness of the assumptions used, including specifically the revenue growth rates and gross margins used in the impairment testing model based on our knowledge on the business and industry; • Comparing the actual results with prior year's forecasts; • Performing an independent assessment of the discount rates used in the impairment testing model, including developing a range of independent estimates and comparing those to the discount rates selected by management, with the assistance of our fair value specialists; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

KEY AUDIT MATTERS – CONTINUED

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**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	6	**(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	7	**(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	8	**(44,283)**	(71,462)
Profit for the year	9	**716,171**	561,307

	NOTE	2018 RMB'000	2017 RMB'000
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		(13,834)	–
Item that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		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	12		
Basic		RMB0.2954	RMB0.2359
Diluted		RMB0.2789	RMB0.2311

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	13	**837,634**	852,519
Intangible assets	14	**148,172**	179,450
Goodwill	15	**1,006,337**	996,789
Investments accounted for using the equity method	16	**144,280**	133,218
Available-for-sale investment	17	**–**	65,342
Equity instrument at fair value through other comprehensive income	17	**51,508**	–
Prepaid lease payments	18	**37,003**	37,863
Other receivables	20	**29,935**	30,000
Deferred tax assets	30	**8,675**	7,504
		2,263,544	2,302,685
Current assets			
Inventories	19	**63,698**	26,024
Trade and other receivables	20	**2,585,247**	1,960,240
Bills receivable	28	**22,212**	11,909
Contract assets	22	**2,819,117**	–
Prepaid lease payments	18	**860**	860
Amounts due from customers for contract work	23	**–**	2,579,998
Amounts due from related companies	24	**67,765**	83,854
Pledged deposits	25	**19,426**	658
Bank balances and cash	25	**2,646,375**	1,785,305
		8,224,700	6,448,848
Current liabilities			
Amounts due to customers for contract work	23	**–**	44,572
Trade and other payables	26	**1,497,011**	1,584,295
Bills payable	28	**45,280**	20,473
Contract liabilities	27	**166,078**	–
Amounts due to related companies	24	**18,185**	59,151
Dividend payable		**81**	78
Taxation payable		**125,174**	157,699
Convertible loan notes	31	**198,263**	–
Borrowings	29	**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 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred tax liabilities	30	**11,062**	15,904
Convertible loan notes	31	**719,941**	953,645
		731,003	969,549
		6,031,523	5,229,966
Capital and reserves			
Share capital	32	**112,994**	110,283
Share premium	33	**2,982,319**	2,809,329
Treasury shares	40	**(76,451)**	–
Reserves	33	**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

The consolidated financial statements on pages 102 to 205 were approved and authorised for issue by the board of directors on 20 March 2019 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Dr. Tang Zhenming
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to the owners of the Company														
	Share capital RMB'000	Share premium RMB'000 (note 33)	Treasury shares RMB'000	Other reserves RMB'000 (note 33)	Fair value through other comprehensive income reserve RMB'000	Translation reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 33)	Statutory enterprise expansion fund RMB'000 (note 33)	Statutory surplus reserve fund RMB'000 (note 33)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	106,387	2,652,697	–	(122,769)	–	21,457	88,340	23,544	15,793	26,749	129,901	1,322,115	4,264,214	68,425	4,332,639
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	565,567	565,567	(4,260)	561,307
Other comprehensive income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Exchange differences arising on translation of foreign operations	–	–	–	–	–	(52,931)	–	–	–	–	–	–	(52,931)	–	(52,931)
Total comprehensive (expense) income for the year	–	–	–	–	–	(52,931)	–	–	–	–	–	565,567	512,636	(4,260)	508,376
Issue of ordinary shares upon exercise of share options	3,896	181,651	–	–	–	–	(22,159)	–	–	–	–	–	163,388	–	163,388
Recognition of share option expenses	–	–	–	–	–	–	149,952	–	–	–	–	–	149,952	–	149,952
Cancellation of share options	–	–	–	–	–	–	(3)	–	–	–	–	3	–	–	–
Issue of convertible loan notes	–	–	–	–	–	–	–	100,630	–	–	–	–	100,630	–	100,630
Appropriations	–	–	–	–	–	–	–	–	–	–	17,554	(17,554)	–	–	–
Dividends paid to ordinary shareholders	–	(25,019)	–	–	–	–	–	–	–	–	–	–	(25,019)	–	(25,019)
At 31 December 2017	110,283	2,809,329	–	(122,769)	–	(31,474)	216,130	124,174	15,793	26,749	147,455	1,870,131	5,165,801	64,165	5,229,966
Effect arising from initial application of HKFRS 9	–	–	–	–	–	–	–	–	–	–	–	(32,502)	(32,502)	–	(32,502)
Adjusted balance at 1 January 2018	110,283	2,809,329	–	(122,769)	–	(31,474)	216,130	124,174	15,793	26,749	147,455	1,837,629	5,133,299	64,165	5,197,464
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	715,803	715,803	368	716,171
Other comprehensive income for the year	–	–	–	–	(13,834)	19,383	–	–	–	–	–	–	5,549	–	5,549
Total comprehensive income for the year	–	–	–	–	(13,834)	19,383	–	–	–	–	–	715,803	721,352	368	721,720
Issue of ordinary shares upon exercise of share options	1,661	141,332	–	–	–	–	(34,322)	–	–	–	–	–	108,671	–	108,671
Recognition of share option expenses	–	–	–	–	–	–	53,297	–	–	–	–	–	53,297	–	53,297
Conversion of convertible loan notes	1,050	68,533	–	–	–	–	–	(5,886)	–	–	–	–	63,697	–	63,697
Appropriations	–	–	–	–	–	–	–	–	–	–	33,514	(33,514)	–	–	–
Dividends paid to ordinary shareholders	–	(36,875)	–	–	–	–	–	–	–	–	–	–	(36,875)	–	(36,875)
Purchase of shares under share award scheme	–	–	(76,451)	–	–	–	–	–	–	–	–	–	(76,451)	–	(76,451)
At 31 December 2018	112,994	2,982,319	(76,451)	(122,769)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,969	2,519,918	5,966,990	64,533	6,031,523

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	760,454	632,769
Adjustments for:		
Depreciation of property, plant and equipment	122,405	94,920
Amortisation of intangible assets and prepaid lease payments	69,262	82,602
Finance costs	117,987	99,069
Loss from derecognition of financial assets measured	7,139	3,846
Impairment loss, net of reversal	35,200	25,862
Share option expenses	53,297	149,952
Interest income	(12,175)	(5,727)
Share of results of investments accounted for using the equity method	(12,222)	(19,763)
Loss on disposal of property, plant and equipment	1,177	619
Exchange (gains) losses	(5,124)	3,446
Operating cash flows before movements in working capital	1,137,400	1,067,595
(Increase) decrease in trade and other receivables	(690,259)	102,678
Increase in contract assets	(241,349)	–
Decrease in amounts due to customers for contract work	–	(77,699)
Increase in amounts due from customers for contract work	–	(1,149,792)
(Decrease) increase in trade and other payables	(39,458)	411,520
Increase in contract liabilities	102,528	–
(Increase) decrease in bills receivable	(10,325)	11,277
Increase in inventories	(37,674)	(5,131)
Increase in amounts due from related companies	(2,542)	–
Increase in bills payable	24,807	19,661
Cash generated from operations	243,128	380,109
Income taxes paid	(111,983)	(63,857)
Income taxes refunded	30,090	15,812
Net cash generated from operating activities	161,235	332,064
Investing activities		
Purchases of property, plant and equipment	(150,506)	(160,137)
Placement of pledged deposits	(18,777)	(1,796)
Development costs paid	(37,124)	(30,117)
Consideration payment on acquisition of a subsidiary	–	(21,035)
Subscription of investments accounted for using the equity method	–	(10,389)
Advances to related companies	–	(23,915)
Repayment from related companies	16,965	–
Withdrawal of pledged deposits	9	1,808
Proceeds from disposal of subsidiaries in prior years	4,118	3,920
Interest received	12,175	5,727
Proceeds from disposal of property, plant and equipment	5,203	381
Dividend received from investments accounted for using equity method	1,125	1,125
Net cash used in investing activities	(166,812)	(234,428)

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Financing activities			
Dividend paid	42	(36,875)	(25,019)
New borrowings raised	42	3,275,798	1,989,822
Proceeds from exercise of share options		108,671	161,233
Purchases of shares under share award scheme		(76,451)	–
Issue of convertible loan notes		–	781,290
Advance from related companies		–	21,168
Repayment to related companies	42	(40,966)	–
Repayment of borrowings	42	(2,292,100)	(2,421,020)
Interest paid on convertible loan notes	42	(30,980)	(11,467)
Other interest paid	42	(54,120)	(63,583)
Net cash generated from financing activities		852,977	432,424
Net increase in cash and cash equivalents		847,400	530,060
Cash and cash equivalents at beginning of the year		1,785,305	1,298,972
Effect of foreign exchange rate changes		13,670	(43,727)
Cash and cash equivalents at end of the year, represented by bank balances and cash		2,646,375	1,785,305

1. GENERAL INFORMATION OF THE COMPANY

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

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

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

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

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

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

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

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

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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.

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

2.1 HKFRS 15 Revenue from Contracts with Customers – continued

Summary of effects arising from initial application of HKFRS 15

	Notes	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	23	2,579,998	(2,579,998)	–
Contract assets	22	–	2,579,998	2,579,998
Current liabilities				
Amounts due to customers for contract work	23	44,572	(44,572)	–
Trade and other payables	26	1,584,295	(18,978)	1,565,317
Contract liabilities	27	–	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.

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

2.1 HKFRS 15 Revenue from Contracts with Customers – continued

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

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.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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	Equity instrument at FVTOCI	Financial assets at amortised cost (previously classified as loans and receivables)	Contract Assets	Accumulated profits
	RMB'000	RMB'000	RMB'000	RMB'000	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

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

2.2 HKFRS 9 Financial Instruments and the related amendments – continued

Summary of effects arising from initial application of HKFRS 9 – continued

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

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)	HKFRS 15	HKFRS 9	1 January 2018 (Restated)
	RMB'000	RMB'000	RMB'000	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 and 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.

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 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.

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

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

HKFRS 16 Leases – continued

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of the lease modifications, amongst other. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use 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 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognised a right-of-use asset and a corresponding liability in respect of all these lease, unless they qualify for low value or short-term leases.

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

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

HKFRS 16 Leases – continued

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 to 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. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of consolidation – continued

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interest in subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity, and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

Business combinations

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations – continued

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Goodwill

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

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

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

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

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

Interests in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interests in associates – continued

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 Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal or partial disposal of the relevant associate.

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) – continued

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

Contracts with multiple performance obligations including allocation of transaction price

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) – continued

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

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

In certain circumstances where the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance to date, the Group recognises revenue based on the amount the Group has a right to invoice.

Principal versus agent

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

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

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

Recognition of revenue from specific major source of revenue

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

(a) *Project-based development services*

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) – continued

Recognition of revenue from specific major source of revenue – continued

(b) *Outsourcing services*

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

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

(c) *Other services*

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

(d) *Sales of goods*

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

Revenue recognition (prior to 1 January 2018)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition (prior to 1 January 2018) – continued

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

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

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

Project-based development contracts

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government grants

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

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

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

Leasing

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

The Group as lessee

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

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Borrowing costs

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

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

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

Taxation

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment – continued

Buildings under construction for future owner-occupied purpose

When buildings are in the course of construction for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets – continued

Intangible assets acquired in a business combination

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

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

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

Prepaid lease payments

Prepaid lease payments mainly represent payments for obtaining land use rights. Payment for obtaining land use rights is charged to profit or loss or included as part of costs of buildings under construction on a straight line basis over the lease terms.

Inventories

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

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

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

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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

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

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

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

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

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) – continued

(ii) Equity instruments designated as at FVTOCI

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

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

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, bills receivable, other receivables, amounts due from related parties) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

(i) Significant increase in credit risk

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) – continued

(i) Significant increase in credit risk – continued

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

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

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) – continued

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables. 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.

(i) 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, bills receivable, amounts due from related companies, pledged deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

(ii) Available-for-sale financial assets

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of an available-for-sale equity investments below its cost is considered to be objective evidence of impairment.

For loans and receivables, 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) – continued

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

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

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

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

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.

Derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Derecognition of financial assets – continued

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

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

Financial liabilities

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

Financial liabilities at amortised cost

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

Convertible loan notes

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Convertible loan notes – continued

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

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

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

Derecognition of financial liabilities

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Foreign currencies – continued

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

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

Retirement benefits costs

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

Short-term employee benefits

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

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

Equity-settled share-based payment transactions

Share options and share awards granted to employees

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity-settled share-based payment transactions – continued

Share options and share awards granted to employees – continued

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

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

Share options granted to suppliers

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Judgements in determining the performance obligations

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

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

Critical judgements in applying accounting policies – continued

Judgements in determining the timing of satisfaction of performance obligations

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

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

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs (or groups of CGUs) to which goodwill has been allocated, and such estimation of the recoverable amount requires management to make significant estimates such as the discount rates, forecasts of revenue growth rates and gross margins based on management's view of future business prospects. The recoverable amount determination of the CGUs (or groups of CGUs) as at 31 December 2018 is based on the present value calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs (or groups of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2018, no impairment loss was recognised by the Group (2017: nil). As at 31 December 2018, the carrying amount of goodwill is RMB1,006,337,000 (2017: RMB996,789,000). Details of the recoverable amount calculation are disclosed in note 15.

Project-based development contracts

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

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

Key sources of estimation uncertainty – continued

Provision of ECL for trade receivables and contract assets

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 35, 20 and 22 respectively.

Amortisation of intangible assets

The carrying value of the Group's intangible assets as at 31 December 2018 is approximately RMB148,172,000 (2017: RMB179,450,000). The Group amortises the intangible assets on a straight-line basis over their estimated useful lives of 3 to 10 years, commencing from the date of the intangible asset is available for use. The estimated useful lives and dates that the Group place the intangible assets into productive use reflects the directors of the Company's estimate of the periods that the future economic benefits can be derived from the usage of the Group's intangible assets. If the estimated useful life of intangible assets did not reflect its actual useful life, additional amortisation may be required.

5. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	2018 RMB'000
Nature of goods and services	
Provision of services	
Project-based development services	5,070,766
Outsourcing services	5,227,798
Others	40,448
	10,339,012
Sales of software and hardware products	246,001
	10,585,013

	2018 RMB'000
Timing of revenue recognition	
Over time	10,339,012
At a point in time	246,001
	10,585,013

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

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

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

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

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Disaggregation of revenue from contracts with customers – continued

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

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

Segment revenue and results

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

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

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

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

The following is an analysis of the Group's revenue 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).

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment revenue and results – continued

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 RMB'000	2017 RMB'000
Segment results	928,345	848,495
Other income, gains and losses unallocated	4,360	84
Interest 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.

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

Segment results represent the profit earned by each segment without allocation of corporate expenses, share option expenses, 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.

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

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
Sales of software and hardware products	**246,001**	436,172
Provision of services		
TPG	**9,022,237**	7,615,969
IIG	**1,316,775**	1,191,543
	10,339,012	8,807,512
	10,585,013	9,243,684

5. REVENUE AND SEGMENT INFORMATION – CONTINUED

Information about major customers

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

	2018 RMB'000	2017 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 RMB'000	TPG RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	63,312	127,685	670	191,667
Loss from derecognition of financial assets measured at amortised cost	–	7,139	–	7,139
Finance costs	9,087	49,664	59,236	117,987
Impairment losses, 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 RMB'000	TPG RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	68,642	108,211	669	177,522
Loss from derecognition of financial assets measured at amortised cost	–	3,846	–	3,846
Finance costs	19,155	39,758	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

6. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses recognised (reversed) on:		
– Trade receivables	35,454	25,919
– Contract assets	2,230	–
– Others	(2,484)	(57)
	35,200	25,862

Details of impairment assessment for the year ended 31 December 2018 are set out in note 35.

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

	2018 RMB'000	2017 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 (note 30)	(6,259)	(2,972)
	44,283	71,462

8. INCOME TAX EXPENSE – CONTINUED

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

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 Key software enterprise 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.

8. INCOME TAX EXPENSE – CONTINUED

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

	2018 RMB'000	2017 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.

9. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 10)	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)

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

Directors' and chief executive's emoluments

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

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

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

	Zhang Yaqin RMB'000	Gao Liangyu RMB'000 (Note a)	Gavriella Schuster RMB'000 (Note b)	Samuel Thomas Goodner RMB'000 (Note c)	Total RMB'000
(B) NON-EXECUTIVE DIRECTORS					
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	254	190	–	374	818
Share-based payments	–	–	500	–	500
Sub-total	254	190	500	374	1,318

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

Directors' and chief executive's emoluments – continued

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

	Zeng Zhijie	Lai Guanrong	Mo Lai Lan	Leung Wing Yin Patrick	Total
	RMB'000	RMB'000	RMB'000 (Note d)	RMB'000 (Note e)	RMB'000
(C) INDEPENDENT NON-EXECUTIVE DIRECTORS					
Fees	102	254	96	102	554
Other emoluments	–	–	–	–	–
Sub-total	102	254	96	102	554

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

	RMB'000
Total emoluments for 2018	12,053

Details of emoluments to the directors and the chief executive for the year ended 31 December 2017 are as follows:

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

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

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

Directors' and chief executive's emoluments – continued

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

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

	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000 (Note e)	Lai Guanrong RMB'000	Total RMB'000
(C) INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	104	104	260	468
Other emoluments	–	–	–	–
Sub-total	104	104	260	468

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

	RMB'000
Total emoluments for 2017	8,388

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

Note b: Gavriella Schuster was appointed as a non-executive director of the Company on 20 September 2018.

Note c: Samuel Thomas Goodner was retired as a non-executive director of the Company on 18 May 2018.

Note d: Mo Lai Lan was appointed as an independent non-executive director of the Company on 15 August 2018.

Note e: Leung Wing Yin Patrick was retired as an independent non-executive director of the Company on 18 May 2018.

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2017: none) was director of the Company whose emolument was included above. The emoluments of the four (2017: five) highest paid individuals were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	22,604	11,513
Retirement benefits costs	166	223
Share option expenses	12,873	66,500
	35,643	78,236

The number of the highest paid employees, who are not the directors of the Company, whose remuneration fell within the following bands is as follows:

	No. of employees 2018	 2017
Hong Kong Dollar ("HK$") HK$7,500,001 to HK$8,000,000	1	–
HK$9,000,001 to HK$9,500,000	1	–
HK$12,000,001 to HK$12,500,000	1	–
HK$12,500,001 to HK$13,000,000	1	–
HK$15,500,001 to HK$16,000,000	–	1
HK$16,500,001 to HK$17,000,000	–	2
HK$20,000,001 to HK$20,500,000	–	1
HK$20,500,001 to HK$21,000,000	–	1
	4	5

During both years, no emoluments were paid by the Group to any of the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

None of the directors waived any emoluments during both years.

11. DIVIDENDS

	2018 RMB'000	2017 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 HK2.15 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.

12. EARNINGS PER SHARE

	2018 RMB'000	2017 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 '000	2017 '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 (see note 40).

12. EARNINGS PER SHARE – CONTINUED

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.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2017	612,843	341,724	13,744	7,351	163,417	1,139,079
Exchange adjustments	–	(1,722)	(14)	8	(47)	(1,775)
Additions	–	58,509	2,431	33,923	34,289	129,152
Transfers	–	2,420	–	(31,117)	28,697	–
Disposals	–	(9,359)	(921)	–	(319)	(10,599)
At 31 December 2017	612,843	391,572	15,240	10,165	226,037	1,255,857
Exchange adjustments	–	1,471	10	–	41	1,522
Additions	1,121	68,081	921	12,901	30,474	113,498
Transfers				(14,768)	14,768	–
Disposals	–	(18,530)	(2,098)	–	–	(20,628)
At 31 December 2018	613,964	442,594	14,073	8,298	271,320	1,350,249
DEPRECIATION						
At 1 January 2017	2,493	199,528	11,073	–	106,186	319,280
Exchange adjustments	–	(1,214)	(10)	–	(39)	(1,263)
Provided for the year	15,662	39,216	999	–	39,043	94,920
Eliminated on disposals	–	(8,495)	(785)	–	(319)	(9,599)
At 31 December 2017	18,155	229,035	11,277	–	144,871	403,338
Exchange adjustments	–	1,076	7	–	37	1,120
Provided for the year	15,803	57,480	700	–	48,422	122,405
Eliminated on disposals	–	(12,554)	(1,694)	–	–	(14,248)
At 31 December 2018	33,958	275,037	10,290	–	193,330	512,615
CARRYING VALUE						
At 31 December 2018	580,006	167,557	3,783	8,298	77,990	837,634
At 31 December 2017	594,688	162,537	3,963	10,165	81,166	852,519

13. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	2% – $3^1/_3$%
Furniture, fixtures and equipment	9% – $33^1/_3$%
Motor vehicles	9% – 20%
Leasehold improvements	Over the relevant lease terms or 19% – $33^1/_3$%, whichever is the lower

At 31 December 2018, the Group is in the process of obtaining the property certificate for the buildings with a carrying amount of RMB575,577,000 (2017: RMB585,366,000) which are located in the PRC.

14. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000	Software RMB'000	Contract-based customer-related intangibles RMB'000 (Note i)	Technical expertise RMB'000 (Note i)	Customer relationship RMB'000 (Note ii)	Patent RMB'000	Trade name RMB'000	Technology RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST											
At 1 January 2017	361,201	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	732,200
Additions	30,117	–	–	–	–	–	–	–	–	–	30,117
At 31 December 2017	391,318	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	762,317
Additions	37,124	–	–	–	–	–	–	–	–	–	37,124
At 31 December 2018	428,442	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	799,441
AMORTISATION/IMPAIRMENT											
At 1 January 2017	197,348	17,367	27,153	19,704	12,494	189,997	8,656	983	18,334	9,089	501,125
Provided for the year	58,897	–	–	–	–	15,490	1,305	9	3,340	2,701	81,742
At 31 December 2017	256,245	17,367	27,153	19,704	12,494	205,487	9,961	992	21,674	11,790	582,867
Provided for the year	51,514	–	–	–	–	13,456	1,305	8	1,670	449	68,402
At 31 December 2018	307,759	17,367	27,153	19,704	12,494	218,943	11,266	1,000	23,344	12,239	651,269
CARRYING VALUE											
At 31 December 2018	120,683	–	–	–	–	24,981	2,498	10	–	–	148,172
At 31 December 2017	135,073	–	–	–	–	38,437	3,803	18	1,670	449	179,450

14. INTANGIBLE ASSETS – CONTINUED

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

Notes:

i. Technical knowhow, software, contract-based customer-related intangibles and technical expertise are fully amortised intangible assets and still in use by the Group.

ii. Part of the customer relationship is fully amortised while the customer relationship still exists.

All intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Development costs	5 years
Technical knowhow	3 – 10 years
Software	3 – 10 years
Contract-based customer-related intangibles	5 years
Technical expertise	5 years
Customer relationship	5 – 10 years
Patent	3.6 – 10 years
Trade name	5 years
Technology	5 years
Non-compete agreements	3 – 5 years

15. GOODWILL

	RMB'000
COST	
At 1 January 2017	1,204,557
Exchange adjustments	(11,690)
At 31 December 2017	1,192,867
Exchange adjustments	9,548
At 31 December 2018	1,202,415
IMPAIRMENT	
At 1 January 2017, 31 December 2017 and 31 December 2018	196,078
CARRYING VALUE	
At 31 December 2018	1,006,337
At 31 December 2017	996,789

15. 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 2018 and 2017 has been allocated to the following CGUs and groups of CGUs:

	2018 RMB'000	2017 RMB'000
Chinasoft Beijing	**66,500**	66,500
Shanghai Huateng	**134,188**	134,188
CSITS and related business (Note)	**605,628**	605,628
Catapult Systems, LLC ("Catapult")	**199,191**	189,643
Computer Training Center of CS&S ("Training Center")	**830**	830
	1,006,337	996,789

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

The recoverable amounts of the following CGUs/groups of CGUs have been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rates shown below. The cash flows of the CGUs/groups of CGUs beyond the five-year period are extrapolated using steady growth rates shown below. These growth rates are based on the relevant industry. Management believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows and/or outflows which include budgeted sales and gross profit margin. Such estimation is based on the past performance of the CGUs/groups of CGUs and management's expectations.

CGUs/groups of CGUs	Discount rate		Growth rate	
	2018	2017	2018	2017
Chinasoft Beijing	**13%**	12.5%	**3%**	3%
Shanghai Huateng	**13%**	12.5%	**3%**	3%
CSITS and related business	**13%**	13%	**3%**	3%
Catapult	**16%**	16%	**3%**	3%
Training Center	**13%**	13%	**3%**	3%

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these CGUs/groups of CGUs to exceed the aggregate recoverable amount of these CGUs/groups of CGUs.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2018 RMB'000	2017 RMB'000
Cost of unlisted investments	95,626	95,661
Share of post-acquisition profits, net of dividend received	48,654	37,557
	144,280	133,218

Included in the cost of unlisted investments is goodwill of RMB3,052,000 and RMB38,266,000 (2017: RMB3,052,000 and RMB38,266,000) arising from China National Tobacco Information Company Limited and Beijing Chinasoft International Education Technology Co., Ltd. ("Beijing Chinasoft EDU"), respectively.

Particulars of the Group's significant investments accounted for using the equity method, both of which are associates of the Group, at 31 December 2018 and 2017 are as follows:

Name	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group 2018	2017	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
北京中軟國際教育科技股份有限公司 Beijing Chinasoft EDU	Equity joint venture enterprise	PRC	PRC	49%	49%	Provision of IT training services

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – CONTINUED

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

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

Beijing Chinasoft EDU

	2018 RMB'000	2017 RMB'000
Current assets	280,607	301,103
Non-current assets	56,860	69,793
Current liabilities	(171,979)	(226,335)
Non-current liabilities	(655)	(1,309)

	2018 RMB'000	2017 RMB'000
Revenue	242,932	426,424
Profit and total comprehensive income for the year	21,581	37,150

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

	2018 RMB'000	2017 RMB'000
Net assets of Beijing Chinasoft EDU	164,833	143,252
Proportion of the Group's ownership interest in Beijing Chinasoft EDU	49%	49%
Goodwill	38,266	38,266
Carrying amount of the Group's interest in Beijing Chinasoft EDU	119,034	108,459

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – CONTINUED

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

	2018 RMB'000	2017 RMB'000
The Group's share of profit and total comprehensive income for the year	1,647	1,559
Aggregate carrying amount of the Group's interests in these investments	25,246	24,759

17. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENT

	2018 RMB'000	2017 RMB'000
Unlisted equity investment	51,508	65,342

On 23 January 2014, the Group entered into a partnership agreement with PointGuard Management I, L.P. ("PointGuard Management") and other two co-investment partners. Under the partnership agreement, the Group agreed to make a total amount of capital commitment of United States Dollars ("US$")10,000,000 to PointGuard Ventures I, L.P. ("PointGuard Ventures"), a Cayman Islands exempted limited partnership engaged in venture capital investments in equity or equity-oriented securities of private and public companies with an emphasis on technology convergence companies. Pursuant to the partnership agreement, PointGuard Management has the sole and exclusive right to manage, control, and conduct the affairs of PointGuard Ventures and to do any and all acts on behalf of it. The directors of the Company consider that the Group cannot exercise control nor significant influence on PointGuard Ventures.

As at 31 December 2018, the capital contributions made by the Group in PointGuard Ventures amounted to US$10,000,000 (2017: US$10,000,000) which represents a 13.29% (2017: 13.29%) of the share of interest.

Investment in PointGuard Ventures as at financial assets at FVTOCI upon application of HKFRS 9 on 1 January 2018, prior to which the investment was measured at cost less impairment.

18. PREPAID LEASE PAYMENTS

	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000
COST			
At 1 January 2017	43,023	1,809	44,832
Exchange adjustments	–	111	111
At 31 December 2017	43,023	1,920	44,943
Exchange adjustments	–	76	76
At 31 December 2018	43,023	1,996	45,019
AMORTISATION			
At 1 January 2017	3,440	1,809	5,249
Exchange adjustments	–	111	111
Provided for the year	860	–	860
At 31 December 2017	4,300	1,920	6,220
Exchange adjustments	–	76	76
Provided for the year	860	–	860
At 31 December 2018	5,160	1,996	7,156
CARRYING VALUE			
At 31 December 2018	37,863	–	37,863
At 31 December 2017	38,723	–	38,723

	2018			2017		
	Land use right RMB'000	**Trademark usage right RMB'000**	**Total RMB'000**	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000
Analysed for reporting purposes as:						
Non-current assets	**37,003**	**–**	**37,003**	37,863	–	37,863
Current assets	**860**	**–**	**860**	860	–	860
	37,863	**–**	**37,863**	38,723	–	38,723

18. PREPAID LEASE PAYMENTS – CONTINUED

The Group's prepaid lease payments comprise payments associated with a land use right of RMB37,863,000 (2017: RMB38,723,000) in the PRC.

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

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Computer hardware, equipment and software products	**63,698**	26,024

20. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 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

20. TRADE AND OTHER RECEIVABLES – CONTINUED

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 projected-based development contracts, and dates of rendering of other types of services at the end of the reporting period is as follows:

	2018 RMB'000	2017 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.

As at 31 December 2017, 69% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

Included in the Group's trade receivables balance as at 31 December 2017 are debtors with an aggregate carrying amount of RMB314,041,000 which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the credit quality of these customers. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2017 RMB'000
Within 90 days	1,641
Between 91 – 180 days	121,480
Between 181 – 365 days	183,744
Between 1 – 2 years	7,176
Total	314,041

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.

20. TRADE AND OTHER RECEIVABLES – CONTINUED

Movement in the allowance for doubtful debts for trade and other receivables

	2017 RMB'000
Balance at beginning of the year	186,917
Impairment losses recognised on receivables	25,942
Amounts recovered during the year	(80)
Amounts written-off as uncollectible	(3,412)
Exchange adjustments	(32)
Balance at end of the year	209,335

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 35.

21. TRANSFER OF FINANCIAL ASSETS

The following are the Group's trade receivables as at 31 December 2018 and 2017 that were factored to certain banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowings (see note 29). These receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2018 RMB'000	2017 RMB'000
Carrying amount of trade receivables	**1,773**	–
Carrying amount of associated liabilities	**(1,773)**	–
Net position	**–**	–

In addition to the above, as at 31 December 2018, trade receivables amounting to RMB550,377,000 (2017: RMB553,889,000) had been factored to independent third parties without recourse. The Group has derecognised these trade receivables in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these trade receivables to the counter parties. Losses related to derecognition of the trade receivables was RMB7,139,000 (2017: RMB3,846,000) which was charged to profit or loss.

22. CONTRACT ASSETS

	2018 RMB'000
Contract assets	2,819,117

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Contract assets, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on expected settlement dates. All contract assets reported at the end of 2018 are current.

Details of the impairment assessment are set out in note 35.

23. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

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

24. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2018 and 2017, the amounts due from related companies mainly represent dividend receivable from an associate of the Group and the advance to associates of the Group. The balances are unsecured, non-interest bearing and repayable on demand.

At the end of 2018, the amounts due to related companies principally represent an advance from an associate of the Group, which is unsecured, interest-free and repayable on demand.

At the end of 2017, the amounts due to related companies principally represent an advance from a non-controlling owner of a subsidiary of the Company, which is unsecured, interest-bearing at 4.35% per annum and with a term of one year.

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 0.50% (2017: 0.35%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts carry at the weighted average interest rate at 0.32% (2017: 0.32%) per annum as at 31 December 2018.

At the end of the reporting period, included in bank balances and pledged deposits are the following amounts denominated in currencies other than the functional currency of the relevant group entities to which they relate.

	2018 **RMB'000**	2017 RMB'000
Renminbi	**–**	9,040
Hong Kong Dollar	**89,477**	6,787
United States Dollar	**45,222**	50,697
Japanese Yen	**845**	8,541
Others	**–**	54

26. TRADE AND OTHER PAYABLES

	2018 **RMB'000**	2017 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

26. TRADE AND OTHER PAYABLES – CONTINUED

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

	2018 RMB'000	2017 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.

27. CONTRACT LIABILITIES

	2018 RMB'000
Contract liabilities	**166,078**

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers. All contract liabilities reported at the end of 2018 are current.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	2018 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	**41,808**

28. BILLS RECEIVABLE AND PAYABLE

An aged analysis of bills receivable is as follows:

	2018 RMB'000	2017 RMB'000
Within 90 days	22,212	11,909

An aged analysis of bills payable is as follows:

	2018 RMB'000	2017 RMB'000
Within 180 days	45,280	20,473

29. BORROWINGS

	2018 RMB'000	2017 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 RMB'000	2017 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	–	–

29. BORROWINGS – CONTINUED

	2018 RMB'000	2017 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.

30. DEFERRED TAXATION

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

	Customer relationship	Patent	Technology	Tax losses	Accrued charges	Difference between carrying amount and tax basis of interests in an associate	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	(7,880)	(1,278)	(750)	1,336	4,410	(7,677)	542	(11,297)
Credit to profit or loss	1,964	325	584	–	–	–	99	2,972
Exchange adjustments	–	–	–	(78)	–	–	3	(75)
At 31 December 2017	(5,916)	(953)	(166)	1,258	4,410	(7,677)	644	(8,400)
Credit to profit or loss	3,468	326	166	1,359	(251)	–	1,191	6,259
Exchange adjustments	485	–	–	129	–	–	(860)	(246)
At 31 December 2018	(1,963)	(627)	–	2,746	4,159	(7,677)	975	(2,387)

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

	2018	2017
	RMB'000	RMB'000
Deferred tax assets	**8,675**	7,504
Deferred tax liabilities	**(11,062)**	(15,904)
	(2,387)	(8,400)

30. DEFERRED TAXATION – CONTINUED

At the end of the reporting period, the Group had unused tax losses of approximately RMB334,369,000 (2017: RMB360,284,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB13,076,000 (2017: RMB3,400,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB321,293,000 (2017: RMB356,884,000) tax losses due to the unpredictability of future profit streams. Tax losses for which no deferred tax asset is recognised amount to RMB321,293,000 (2017: RMB356,884,000) that will expire in various years before 2023 (2017: 2022).

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries as at 31 December 2018 amounting to RMB2,955,610,000 (2017: RMB2,014,902,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

31. CONVERTIBLE LOAN NOTES

Convertible loan notes issued in 2017

The Company entered into a subscription agreement in April 2017, as amended in May 2017, with Dan Capital Management Ltd, the subscriber, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, a RMB denominated HK$ settled convertible loan notes which would be settled by an aggregate principal amount of HK$900,000,000 (to be translated to a Renminbi amount at the prevailing market exchange rate of the date of issue of the notes, or the RMB Equivalent Principal Amount for 2017 Notes). The convertible loan notes have been issued on 3 July 2017 in two batches, HK$254,000,000 and HK$646,000,000 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership, respectively, as the ultimate subscribers which were established by Dan Capital Management Ltd.. The RMB Equivalent Principal Amount for 2017 Notes was then determined to be RMB781,290,000 at the fixed exchange rate of RMB0.8681 to HK$1. The maturity date of the convertible loan notes is 3 July 2022.

The convertible loan notes entitle the holders to convert them into 180,000,000 ordinary shares of the Company (unless previously redeemed, converted and cancelled) at any time on or prior to the maturity date at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue and capital distribution) of HK$5 per share, translated to RMB4.34 per share at a fixed exchange rate. Interest of 3% per annum will be paid semi-annually with the first interest payment dates fell on 2 January 2018 for the convertible loan notes. Unless previously converted, repaid or cancelled, the convertible loan notes will be redeemed by the Company at the maturity date in HK$ in an amount equivalent to the RMB Equivalent Principal Amount for 2017 Notes outstanding together with accrued interest, calculated at the prevailing market rate for the HK$ to RMB on the maturity date.

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2017 – continued

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the maturity date. The note holders may request immediate redemption of the convertible loan notes in HK$ in an amount equivalent to the RMB Equivalent Principal Amount for 2017 Notes then outstanding upon occurrence of certain events of defaults. Further details of the issue of convertible loan notes were set out in the announcements made by the Company on 18 April 2017 and 3 July 2017.

At initial recognition, the conversion option component of the convertible loan notes that may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity was separated from the liability component. The conversion option component upon initial recognition is presented in equity under the heading of convertible loan notes reserve. The effective interest rates of the liability component is 6.11% per annum, respectively.

Convertible loan notes issued in 2016

The Company entered into a subscription agreement in February 2016 with Huarong International Asset Management Growth Fund L.P., the subscriber, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, a RMB denominated US$ settled convertible loan notes which would be settled by an aggregate principal amount of US$70,000,000 (translated to RMB458,649,000 at the prevailing market exchange rate of the date of the agreement of RMB6.5521 to US$1, or the RMB Equivalent Principal Amount for 2016 Notes). The convertible loan notes were issued in two tranches. The first and second tranche convertible loan notes amount to US$30,000,000 and US$40,000,000, and have been issued on 15 February 2016 and 10 March 2016, respectively. The maturity dates of the first and second tranche convertible loan notes are 15 February 2019 and 10 March 2019, respectively.

The convertible loan notes entitle the holders to convert them into 181,987,612 ordinary shares of the Company (unless previously redeemed, converted or cancelled) at any time on or prior to the maturity dates at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue and capital distribution) of HK$3 per share, translated to RMB2.52 per share at a fixed exchange rate. Interest of 4.5% per annum will be paid semi-annually with the first interest payment dates fell on 15 August 2016 and 9 September 2016 for the first and second tranche convertible loan notes, respectively. Unless previously converted, repaid or cancelled, the convertible loan notes will be redeemed by the Company at the maturity dates in US$ in an amount equivalent to the RMB Equivalent Principal Amount for 2016 Notes outstanding together with accrued interest, calculated at the prevailing market rate for the US$ to RMB on the maturity dates.

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2016 – continued

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the maturity dates. The note holder may request immediate redemption of the convertible loan notes in US$ in an amount equivalent to the RMB Equivalent Principal Amount for 2016 Notes then outstanding upon occurrence of certain events of defaults. Further details of the issue of convertible loan notes were set out in the announcement made by the Company on 3 February 2016.

At initial recognition, the conversion option component of the convertible loan notes that may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity was separated from the liability component. The conversion option component upon initial recognition is presented in equity under the heading of convertible loan notes reserve. The effective interest rates of the liability component for the first tranches and second tranches are 8.36% and 8.08% per annum, respectively. Conversions of a portion of the convertible loan notes were made during 2016 and 2018 into 77,994,690 ordinary shares and 25,998,230 ordinary shares, respectively.

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

	2018 RMB'000	2017 RMB'000
Carrying amount at the beginning of the year	953,645	244,296
Converted by the notes holders	(63,697)	–
Issued during the year	–	680,660
Interest charge (note 7)	59,236	40,156
Interest paid	(30,980)	(11,467)
Carrying amount at the end of the year	918,204	953,645

Analysed for reporting purposes as:

	2018 RMB'000	2017 RMB'000
Current liabilities	198,263	–
Non-current liabilities	719,941	953,645
Carrying amount at the end of the year	918,204	953,645

32. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2017, 31 December 2017 and 2018	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 2017	2,314,174,436	115,708,722	106,387
Exercise of share options (Note i)	88,100,000	4,405,000	3,896
At 31 December 2017	2,402,274,436	120,113,722	110,283
Exercise of share options (Note i)	38,040,000	1,902,000	1,661
Conversion of Convertible loan notes (Note ii)	25,998,230	1,299,912	1,050
At 31 December 2018	2,466,312,666	123,315,634	112,994

Notes:

(i) During the year ended 31 December 2018, share options to subscribe for 38,040,000 (2017: 88,100,000) ordinary shares of HK$0.05 each were exercised from HK$3.27 to HK$3.67 (2017: HK$1.78 to HK$2.15) per share (see note 40). These shares rank pari passu with other shares in issue in all respects.

(ii) During the year ended 31 December 2018, convertible loan notes issued in 2016 with the principal amount of USD10,000,000 (translated to RMB65,521,000 at a fixed exchange rate) were converted into 25,998,230 ordinary shares of HK$0.05 each at a conversion price of HK$3.00 (translated to RMB2.52 at a fixed exchange rate) per share (see note 31). These shares rank pari passu with other shares in issue in all respects.

33. SHARE PREMIUM AND RESERVES

Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

Other reserves

When the proportion of the equity held by non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Other reserve mainly represents the differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received after taking account of the effect of reallocation of certain other reserves of the subsidiaries.

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.

34. 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 29, convertible loan notes disclosed in note 31, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising share capital, share premium, treasury shares and reserves.

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

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018	2017
	RMB'000	RMB'000
Financial assets		
Equity instrument at FVTOCI	**51,508**	–
Available-for-sale investment	**–**	65,342
Financial assets at amortised cost	**5,156,518**	–
Loans and receivables (including cash and cash equivalents)	**–**	3,730,548
Financial liabilities		
Amortised cost	**3,298,765**	2,548,080

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, amounts due from/to related companies, pledged deposits, bank balances and cash, available-for-sale investment/equity investment at FVTOCI, trade and other payables, dividend payable, borrowings, bills payable and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

35. 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, trade receivables denominated in foreign currencies arising from income generated from provision of services, and trade and other payables arising from purchases dominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 0.4% (2017: 0.5%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currencies of the group entities providing the services.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar	**89,534**	102,549	**557**	592
United States Dollar	**45,222**	96,512	**–**	–
Japanese Yen	**4,371**	18,053	**–**	1,348
Others	**–**	6,590	**–**	–

It is the Group's policy for each operating entity to operate in local currency as far as possible to minimise currency risk. The Group's principal businesses are conducted in Renminbi. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management but the management has kept on monitoring the movement of all foreign currency exposure.

Sensitivity analysis

The Group is mainly exposed to Hong Kong Dollar, United States Dollar and Japanese Yen.

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive/negative number below indicates an increase/decrease in post-tax profit where Renminbi strengthens 5% against the relevant currencies. For a 5% weakening of Renminbi against the relevant currencies, there would be an equal and opposite impact on the result.

35. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Market risk – continued

(i) *Currency risk – continued*

Sensitivity analysis – continued

	Hong Kong Dollar Impact (Note a)		United States Dollar Impact (Note b)		Japanese Yen Impact (Note c)	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit for the year	**(3,337)**	(3,823)	**(1,696)**	(3,619)	**(164)**	(626)

Notes:

a) This is mainly attributable to the exposure on Hong Kong Dollar trade receivables, bank balances and other payables at the end of the reporting periods.

b) This is mainly attributable to the exposure on United States Dollar trade receivables and bank balances at the end of the reporting periods.

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

(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 2018, except for an amount of RMB330,000,000 (2017: RMB40,000,000) of bank borrowings at floating rates, all remaining bank borrowings of the Group are at fixed rate.

The Group is exposed to fair value interest rate risk in relation to convertible loan notes (see note 31 for details), borrowings with fixed interest rates (see note 29) and amounts 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 29) 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 in respect of an unsecured bank loan. The Group kept certain borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk as at 31 December 2018 and 2017. The directors of the Company will consider hedging significant interest rate risk should the need arise.

35. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk- continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for remaining floating rate borrowings (see note 29). A 50 basis points (2017: 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 (2017: 50 basis points) higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by RMB1,238,000 (2017: RMB150,000).

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2018 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. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors consider that the Group's credit risk is significantly reduced.

For the purposes of impairment assessment, other receivables, amounts due from related parties and non-current other receivables are not considered to have a high credit risk as the counterparties to these financial assets have a fair credit rating.

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

35. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Credit risk and impairment assessment – continued

The Group's concentration of credit risk by geographical locations is mainly in the PRC. Trade receivables reported by the Group's operating entities in the PRC accounted for 95.8% (2017: 93.3%) of the total trade receivables as at 31 December 2018. The Group has concentration of credit risk as 52.7% (2017: 54.9%) and 67.0% (2017: 68.8%) 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.

As part of Group's credit risk management, the Group applies internal credit rating for its customers in relation to its business operation. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed collectively based on provision matrix as at 31 December 2018.

Provision matrix:

		Gross carrying amount	
Internal credit rating	**Loss rates**	**Trade receivables**	**Contract assets**
	%	RMB'000	RMB'000
Category-1: Low risk	0.10%-0.95%	168,175	153,065
Category-2 to 3: Medium to high risk	2.15%-29.61%	287,704	353,256
Category-4 to 5: Very high risk to extremely high risk	40.31%-100.00%	99,620	–

Credit impaired debtors and certain debtors with significant outstanding balances of a total gross carrying amount of RMB1,751,924,000 and certain contract assets with significant outstanding balances of a gross carrying amount of RMB2,406,514,000 as at 31 December 2018 are assessed individually.

During the year ended 31 December 2018, the Group provided RMB22,734,000 and RMB1,260,000 impairment allowance for trade receivables and contract assets, respectively, based on provision matrix. Impairment loss of RMB12,720,000 and RMB970,000 for trade receivables and contract assets, respectively, were made during the year ended 31 December 2018 based on individual assessment of credit impaired debtors, certain debtors and contract assets with significant outstanding balances. Such allowance is measured at an amount equal to lifetime ECL in accordance with simplified approach.

The estimated loss rates are estimated based on historical credit loss experience, adjusted for factors that are specific to the debtors and forward-looking information that is available without undue cost or effort.

35. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Credit risk and impairment assessment – continued

The following table shows the impairment losses recognised in 2018 described above and other movements in the loss allowance for trade receivables and contract assets.

	RMB'000
At 31 December 2017 under HKAS 39	208,090
Adjustment upon application of HKFRS 9	15,561
Exchange adjustments	53
Impairment losses recognised on trade receivables	35,454
Impairment losses recognised on contract assets	2,230
At 31 December 2018	261,388

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2018, the Group has available unutilised general borrowing facilities of approximately RMB792,170,000 (2017: RMB909,250,000).

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.

35. FINANCIAL INSTRUMENTS – CONTINUED

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables

	Weighted average interest rate %	On demand or less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2018 RMB'000
2018							
Non derivative financial liabilities							
Trade and other payables		641,369	–	–	–	641,369	641,369
Bills payable		45,280	–	–	–	45,280	45,280
Amounts due to related companies		18,185	–	–	–	18,185	18,185
Dividend payable		81	–	–	–	81	81
Borrowings	4.76	746,798	1,678,673	–	–	2,425,471	1,675,646
Convertible loan notes	6.52	212,990	11,784	11,980	721,912	958,666	918,204
		1,664,703	1,690,457	11,980	721,912	4,089,052	3,298,765

	Weighted average interest rate %	On demand or less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2017 RMB'000
2017							
Non derivative financial liabilities							
Trade and other payables		828,983	–	–	–	828,983	828,983
Bills payable		20,473	–	–	–	20,473	20,473
Amounts due to related companies	4.35	50,218	10,193	–	–	60,411	59,151
Dividend payable		78	–	–	–	78	78
Borrowings	4.58	666,782	25,030	–	–	691,812	685,750
Convertible loan notes	6.11	17,975	17,812	291,778	852,648	1,180,213	953,645
		1,584,509	53,035	291,778	852,648	2,781,970	2,548,080

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

This note provides information about how the Group determines fair value of the following financial instrument that is measured at fair value on a recurring basis.

	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key input(s)	Significant unobservable input(s)
	2018	2017			
Financial assets					
Equity instrument at FVTOCI (an unlisted investment fund)	51,508	–	Level 3	Net asset value of the fund, principally determined by net asset value of its underlying investments	Net asset value

Reconciliation of level 3 fair value measurements of financial assets is as follows:

	Equity instrument at FVTOCI
	RMB'000
At 1 January 2018	65,342
Changes in fair value	(13,834)
Balance at 31 December 2018	51,508

37. PLEDGE OF ASSETS

At the end of 2018 and 2017, the Group pledged certain bank deposits as collaterals for short-term trade facilities granted to the Group (see note 25). In addition, as at the end of 2018, the Group pledged the collection rights in certain trade receivables to secure repayment of the bank loans (see note 29).

38. 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:

	2018 RMB'000	2017 RMB'000
Within one year	155,535	97,466
In the second to fifth year inclusive	188,142	131,857
Over five years	21,879	–
	365,556	229,323

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 ten years (2017: one year to six years) for the Group and rentals are normally fixed during the lease periods.

39. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	17,686	845
– investments in entities accounted for using equity method	113,100	113,100
	130,786	113,945

40. SHARE–BASED PAYMENTS

Share option schemes

The Company's first share option scheme (the "2003 Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2003 by the shareholders for the purpose of providing incentives and rewards to the people and the parties working for the interest of the Group. The 2003 Share Option Scheme will remain valid for a period of ten years commencing on 2 June 2003. Pursuant to a resolution passed on 20 May 2013, the 2003 Share Option Scheme which would be expired on 1 June 2013 was terminated and a new share option scheme (the "2013 Share Option Scheme") (together with the 2003 Share Option Scheme, collectively referred to as the "Share Option Schemes") was adopted. Upon termination of the 2003 Share Option Scheme, no further options may be offered thereunder but in all other respects the provisions of the 2003 Share Option Scheme shall remain in full force and effect. The expiry of the 2003 Share Option Scheme will not in any event affect the terms of those outstanding options that have already been granted under the 2003 Share Option Scheme.

Under the Share Option Schemes, the board of directors may grant options to eligible participants including the directors, full-time and part-time employees of the Company or any of its subsidiaries or associates, suppliers and customers of the Company or any of its subsidiaries or associates to subscribe for shares in the Company in accordance with the terms of the Share Option Schemes. An offer for the grant of options must be accepted within 30 days from the date of offer, and a consideration of HK$1.00 is payable by each of the participants on acceptance of the grant of options.

An option may be exercised in accordance with the terms of the Share Option Schemes at any time during a period of not more than ten years after the date on which an offer of the grant of an option is accepted. The subscription price for shares under the Share Option Schemes will be a price determined by the board of directors and notified to each grantee and will be no less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer and; (iii) the nominal value of a share.

40. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The Company may grant options under the Share Option Schemes and any other share option schemes of the Company entitling the grantees to exercise up to an aggregate of 10% of the total number of shares in issue immediately upon the listing of the shares on the Stock Exchange and subject to renewal with shareholders' approval. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Schemes and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders.

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2018 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2018
Non-executive directors:									
Zhang Yaqin	16.12.2015	HK$3.27	Nil	16.12.2015 – 15.12.2018	900,000	–	(900,000)	–	–
			16.12.2015 – 15.12.2016	16.12.2016 – 15.12.2018	900,000	–	(900,000)	–	–
			16.12.2015 – 15.12.2017	16.12.2017 – 15.12.2018	1,200,000	–	(1,200,000)	–	–
Gavriella Schuster	28.9.2018	HK$5.22	Nil	28.9.2018 – 27.9.2021	–	300,000	–	–	300,000
			28.9.2018 – 27.9.2019	28.9.2019 – 27.9.2021	–	300,000	–	–	300,000
			28.9.2018 – 27.9.2020	28.9.2020 – 27.9.2021	–	400,000	–	–	400,000
					3,000,000	1,000,000	(3,000,000)	–	1,000,000

40. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The movements of the share options granted to the directors, other employees and suppliers of the Group during the year ended 31 December 2018 are as follows – continued:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2018
Employees:	16.12.2015	HK$3.27	Nil	16.12.2015 – 15.12.2018	10,500,000	–	(10,500,000)	–	–
			16.12.2015 – 15.12.2016	16.12.2016 – 15.12.2018	10,500,000	–	(10,500,000)	–	–
			16.12.2015 – 15.12.2017	16.12.2017 – 15.12.2018	14,000,000	–	(14,000,000)	–	–
	11.10.2016	HK$3.69	11.10.2016 – 10.10.2017	11.10.2017 – 10.10.2020	40,000,000	–	–	–	40,000,000
			11.10.2016 – 10.10.2018	11.10.2018 – 10.10.2020	24,000,000	–	–	–	24,000,000
			11.10.2016 – 10.10.2019	11.10.2019 – 10.10.2020	16,000,000	–	–	–	16,000,000
	17.11.2016	HK$3.69	Nil	17.11.2016 – 16.11.2019	15,000,000	–	–	–	15,000,000
			17.11.2016 – 16.11.2017	17.11.2017 – 16.11.2019	15,000,000	–	–	–	15,000,000
			17.11.2016 – 16.11.2018	17.11.2018 – 16.11.2019	20,000,000	–	–	–	20,000,000
	16.1.2017	HK$3.67	Nil	16.1.2017 – 15.1.2020	25,500,000	–	(40,000)	–	25,460,000
			16.1.2017 – 16.1.2018	16.1.2018 – 15.1.2020	25,500,000	–	–	–	25,500,000
			16.1.2017 – 16.1.2019	16.1.2019 – 15.1.2020	34,000,000	–	–	–	34,000,000
					250,000,000	–	(35,040,000)	–	214,960,000
Suppliers:	21.9.2017	HK$4.50	Nil	21.9.2017 – 20.9.2020	6,000,000	–	–	–	6,000,000
			21.9.2017 – 20.9.2018	21.9.2018 – 20.9.2020	6,000,000	–	–	–	6,000,000
			21.9.2017 – 20.9.2019	21.9.2019 – 20.9.2020	8,000,000	–	–	–	8,000,000
					20,000,000	–	–	–	20,000,000
Total					273,000,000	1,000,000	(38,040,000)	–	235,960,000
Exercisable at the end of the year									177,260,000
Weighted average exercise price					HK$3.68	HK$5.22	HK$3.27	–	HK$3.83

40. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

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

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2017
Executive directors:									
Chen Yuhong	23.1.2014	HK$2.15	Nil	23.01.2014 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	4,000,000	–	(4,000,000)	–	–
					10,000,000	–	(10,000,000)	–	–
Tang Zhenming	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	(500,000)	–	–
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	(500,000)	–	–
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	(500,000)	–	–
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	(500,000)	–	–
	23.1.2014	HK$2.15	Nil	23.01.2014 - 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	3,000,000	–	(3,000,000)	–	–
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	4,000,000	–	(4,000,000)	–	–
					12,000,000	–	(12,000,000)	–	–
Non-executive directors:									
Zhang Yaqin	16.12.2015	HK$3.27	Nil	16.12.2015 – 15.12.2018	900,000	–	–	–	900,000
			16.12.2015 – 15.12.2016	16.12.2016 – 15.12.2018	900,000	–	–	–	900,000
			16.12.2016 – 15.12.2017	16.12.2017 – 15.12.2018	1,200,000	–	–	–	1,200,000
					3,000,000	–	–	–	3,000,000

40. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

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

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31.12.2017
Employees:	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2017	1,085,000	–	(1,085,000)	–	–
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	3,220,000	–	(3,220,000)	–	–
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	2,950,000	–	(2,950,000)	–	–
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	3,350,000	–	(3,345,000)	(5,000)	–
	23.1.2014	HK$2.15	Nil	23.01.2014 – 22.01.2017	21,145,000	–	(21,145,000)	–	–
			23.01.2014 – 22.01.2015	23.01.2015 – 22.01.2017	12,155,000	–	(12,155,000)	–	–
			23.01.2014 – 22.01.2016	23.01.2016 – 22.01.2017	22,200,000	–	(22,200,000)	–	–
	16.12.2015	HK$3.27	Nil	16.12.2015 – 15.12.2018	10,500,000	–	–	–	10,500,000
			16.12.2015 – 15.12.2016	16.12.2016 – 15.12.2018	10,500,000	–	–	–	10,500,000
			16.12.2015 – 15.12.2017	16.12.2017 – 15.12.2018	14,000,000	–	–	–	14,000,000
	11.10.2016	HK$3.69	11.10.2016 – 10.10.2017	11.10.2017 – 10.10.2020	40,000,000	–	–	–	40,000,000
			11.10.2016 - 10.10.2018	11.10.2018 – 10.10.2020	24,000,000	–	–	–	24,000,000
			11.10.2016 – 10.10.2019	11.10.2019 – 10.10.2020	16,000,000	–	–	–	16,000,000
	17.11.2016	HK$3.69	Nil	17.11.2016 – 16.11.2019	15,000,000	–	–	–	15,000,000
			17.11.2016 – 16.11.2017	17.11.2017 – 16.11.2019	15,000,000	–	–	–	15,000,000
			17.11.2016 – 16.11.2018	17.11.2018 – 16.11.2019	20,000,000	–	–	–	20,000,000
	16.1.2017	HK$3.67	Nil	16.1.2017 – 15.1.2020	–	25,500,000	–	–	25,500,000
			16.1.2017 – 16.1.2018	16.1.2018 – 15.1.2020	–	25,500,000	–	–	25,500,000
			16.1.2017 – 16.1.2019	16.1.2019 – 15.1.2020	–	34,000,000	–	–	34,000,000
					231,105,000	85,000,000	(66,100,000)	(5,000)	250,000,000
Suppliers:	21.9.2017	HK$4.50	Nil	21.9.2017 – 20.9.2020	–	6,000,000	–	–	6,000,000
			21.9.2017 – 20.9.2018	21.9.2018 – 20.9.2020	–	6,000,000	–	–	6,000,000
			21.9.2017 – 20.9.2019	21.9.2019 – 20.9.2020	–	8,000,000	–	–	8,000,000
					–	20,000,000	–	–	20,000,000
Total					256,105,000	105,000,000	(88,100,000)	(5,000)	273,000,000
Exercisable at the end of the year									139,500,000
Weighted average exercise price					HK$3.08	HK$3.82	HK$2.10	HK$1.78	HK$3.68

40. SHARE–BASED PAYMENTS – CONTINUED

Share option schemes – continued

The estimated fair value of the share options granted on 16 January 2017 was HK$0.94 to HK$1.16 per option. Fair values were calculated using the binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

Share price on grant date	HK$3.58
Exercise price	HK$3.67
Expected volatility	52.17%
Time to maturity	3 years
Risk-free rate	1.20%
Expected dividend yield	0.00%
Expected exercise period	0 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,096 days up to 2017.

The estimated fair value of the share options granted on 21 September 2017 was HK$1.28 to HK$1.47 per option. Fair values were calculated using the binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

Share price on grant date	HK$4.50
Exercise price	HK$4.50
Expected volatility	49.19%
Time to maturity	3 years
Risk-free rate	1.01%
Expected dividend yield	0.27%
Expected exercise period	0 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,096 days up to 2017.

The estimated fair value of the share options granted on 28 September 2018 was HK$1.34 to HK$1.39 per option. Fair values were calculated using the binomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

Share price on grant date	HK$5.22
Exercise price	HK$5.22
Expected volatility	36.71%
Time to maturity	3 years
Risk-free rate	2.41%
Expected dividend yield	0.34%
Expected exercise period	0 – 3 years

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,096 days up to 2018.

The Group recognised a total expense of RMB53,297,000 for the year ended 31 December 2018 (2017: RMB149,952,000) in relation to share options granted by the Company.

40. SHARE-BASED PAYMENTS – CONTINUED

Share award scheme

Pursuant to a resolution passed on 10 December 2018 by the board of directors of the Company, a share award scheme ("Share Award Scheme") was adopted. The board of directors of the Company may, at its absolute discretion, select any employee to participate in the Share Award Scheme and grant shares to the employee at no consideration. The purpose of the Share Award Scheme is to recognise the contributions by certain qualifying employees of the Group and to provide them with incentives in order to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Group. On the same date, a trust was established under a trust deed entered into by the Company to administer the Share Award Scheme, and for the purchase or subscription of the shares of the Company, based on financial support given by the Group. Any shares subsequently awarded by the Company to the qualifying employees will be settled with the shares held by the trust on behalf of the Company. The directors of the Company have determined that the Company controls the trust through the trust deed and therefore consolidates the trust.

Subject to any early termination as may be determined by the board of directors of the Company pursuant to the Share Award Scheme rules, the Share Award Scheme shall be valid and effective for a term of ten (10) years commencing on the Adoption Date.

The board of directors of the Company shall not make any further award of shares which will result in the nominal value of the shares awarded by the board of directors of the Company under the Share Award Scheme exceeding ten per cent of the issued share capital of the Company from time to time.

The maximum number of shares which may be awarded to a qualifying employee under the Share Award Scheme shall not exceed one per cent of the issued share capital of the Company from time to time.

During 2018, the Company contributed RMB76,451,000 for financing purchases of 22,078,000 shares of the Company, which are currently held under the Share Award Scheme and such amount is deducted from equity as treasury shares. No share awards have been granted to any qualifying employees.

41. 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 RMB403,282,000 (2017: RMB331,232,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in trade and other payables) RMB'000 (note 26)	Borrowings RMB'000 (note 29)	Convertible loan notes RMB'000	Amounts due to related companies RMB'000	Dividend payable RMB'000
As at 1 January 2017	6,237	1,116,948	244,296	37,983	83
New borrowings raised	–	1,989,822	–	–	–
Repayment of borrowings	–	(2,421,020)	–	–	–
Issue of convertible loan notes	–	–	680,660	–	–
Interest expenses	58,913	–	40,156	–	–
Advance from related companies	–	–	–	21,168	–
Interest paid	(63,583)	–	(11,467)	–	–
Dividend declared	–	–	–	–	25,019
Dividend paid	–	–	–	–	(25,019)
Foreign exchange translation	–	–	–	–	(5)
As at 31 December 2017	1,567	685,750	953,645	59,151	78
New borrowings raised	–	3,275,798	–	–	–
Repayment of borrowings	–	(2,292,100)	–	–	–
Issue of convertible loan notes	–	–	–	–	–
Conversion of convertible loan notes	–	–	(63,697)	–	–
Interest expenses	–	58,751	59,236	–	–
Repayment to related companies	–	–	–	(40,966)	–
Interest paid	(1,567)	(52,553)	(30,980)	–	–
Dividend declared	–	–	–	–	36,875
Dividend paid	–	–	–	–	(36,875)
Foreign exchange translation	–	–	–	–	3
As at 31 December 2018	–	1,675,646	918,204	18,185	81

As at 31 December 2018, the interests accrued on borrowings of the Group are included in the carrying amounts of the corresponding financial liabilities.

43. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with the associate of the Group, Beijing Chinasoft EDU, other than those disclosed elsewhere in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Provision of IT outsourcing services by the Group	**1,451**	992

	2018 RMB'000	2017 RMB'000
Provision of IT solution services by the Group	**1,091**	36

Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**18,843**	12,507
Retirement benefits costs	**249**	230
Share option expenses	**3,841**	11,513
	22,933	24,250

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

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries directly and indirectly held by the company at the end of the reporting period are set out below.

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2018 %	2017 %	2018 %	2017 %	
Chinasoft International (Hong Kong) Limited	Hong Kong	HK$100	–	–	100	100	Investment holding and trading of standalone software products
中軟國際科技服務(香港)有限公司 Chinasoft International Technology Service (Hong Kong) Limited	Hong Kong	HK$100,000	–	–	100	100	Provision of IT outsourcing services
Chinasoft Interfusion Inc.	USA	US$0.01	–	–	100	100	Provision of IT outsourcing services
北京中軟國際信息技術有限公司 Chinasoft Beijing	PRC	RMB200,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Training Center (Note i)	PRC	RMB500,000	–	–	100	100	Provision of IT training services
廈門中軟海晟信息技術有限公司 CSIHS	PRC	RMB80,000,000	–	–	51	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
上海中軟華騰軟件系統有限公司 Shanghai Huateng	PRC	US$8,000,000	–	–	100	100	Development and provision of IT system

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2018 %	2017 %	2018 %	2017 %	
中軟國際科技服務有限公司 CSITS	PRC	RMB100,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際(上海)科技服務有限公司 Chinasoft International Technology Service (Shanghai) Ltd.	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
北京中軟國際科技服務有限公司 CSITS BJ	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際科技服務(大連)有限公司	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
Catapult	USA	US$4,792,248	–	–	100	100	Provision of Microsoft product and technology consultancy services
武漢中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of IT outsourcing service
深圳中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of solutions IT outsourcing IT consulting

Except for convertible loan notes issued by the Company, none of the subsidiaries had any debt securities outstanding at 31 December 2018 or at any time during the year.

Note i: The entity is registered as an institutional organisation under the PRC law.

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

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

The table below shows details of a non-wholly-owned subsidiary of the Company that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
CSIHS	PRC	49%	49%	608	(3,755)	43,220	42,612
Individually immaterial subsidiaries with non-controlling interests						21,313	21,553
						64,533	64,165

Summarised financial information in respect of the non-wholly-owned subsidiary of the Company that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

CSIHS	2018 RMB'000	2017 RMB'000
Current assets	154,642	160,728
Non-current assets	11,956	12,824
Current liabilities	(78,688)	(86,884)
Equity attributable to owners of the Company	44,690	44,058
Equity attributed to non-controlling interests	43,220	42,612

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

CSIHS	2018 RMB'000	2017 RMB'000
Revenue	**141,578**	129,714
Expenses	**(140,337)**	(137,376)
Profit (loss) and total comprehensive income (expense) for the year	**1,241**	(7,662)
Net cash generated from (used in) operating activities	**11,933**	(21,349)
Net cash used in investing activities	**(435)**	(1,859)
Net cash (used in) generated from financing activities	**(11,700)**	17,125
Net decrease in cash and cash equivalents	**(202)**	(6,083)

45. EVENTS 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.

46. 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:

	2018 RMB'000	2017 RMB'000
Non-current assets		
Interests in subsidiaries	2,152,671	2,152,671
Current assets		
Other receivables	44,958	1,613
Amounts due from subsidiaries	798,272	915,679
Bank balances and cash	47,307	6,813
	890,537	924,105
Current liabilities		
Other payables	1,717	4,708
Amounts due to related companies	118	118
Dividend payable	81	78
Convertible loan notes	198,263	–
	200,179	4,904
Net current assets	690,358	919,201
Total assets less current liabilities	2,843,029	3,071,872
Non-current liabilities		
Convertible loan notes	719,941	953,645
	2,123,088	2,118,227
Capital and reserves		
Share capital	112,994	110,283
Share premium	2,982,319	2,809,329
Treasury shares	(76,451)	–
Reserves (Note)	(895,774)	(801,385)
Total equity	2,123,088	2,118,227

46. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY – CONTINUED

Note: Movement in reserves

	Equity-settled share-based payment reserve	Convertible loan notes reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	88,340	23,544	(882,681)	(770,797)
Loss and total comprehensive expenses for the year	–	–	(259,011)	(259,011)
Issue of ordinary shares upon exercise of share options	(22,159)	–	–	(22,159)
Recognition of share option expenses	149,952	–	–	149,952
Cancellation of share options	(3)	–	3	–
Issue of convertible loan notes	–	100,630	–	100,630
At 31 December 2017	216,130	124,174	(1,141,689)	(801,385)
Loss and total comprehensive expenses for the year	–	–	(107,478)	(107,478)
Issue of ordinary shares upon exercise of share options	(34,322)	–	–	(34,322)
Recognition of share option expenses	53,297	–	–	53,297
Conversion of convertible loan notes	–	(5,886)	–	(5,886)
At 31 December 2018	235,105	118,288	(1,249,167)	(895,774)

RESULTS

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	4,429,202	5,129,111	6,783,367	9,243,684	**10,585,013**
Profit (loss) before taxation	297,239	419,994	524,587	632,769	**760,454**
Income tax expense	(42,183)	(87,010)	(114,754)	(71,462)	**(44,283)**
Profit (loss) for the year	255,056	332,984	409,833	561,307	**716,171**
Attributable to:					
Owners of the Company	200,038	280,056	442,081	565,567	**715,803**
Non-controlling interests	55,018	52,928	(32,248)	(4,260)	**368**
	255,056	332,984	409,833	561,307	**716,171**
	HKD (cents)	HKD (cents)	HKD (cents)	HKD (cents)	**HKD (cents)**
Dividend	–	–	1.2	1.8	**2.15**

ASSETS AND LIABILITIES

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	5,344,466	6,348,453	7,229,303	8,751,533	**10,488,244**
Total liabilities	(2,643,435)	(2,862,183)	(2,896,664)	3,521,567	**4,456,721**
	2,701,031	3,486,270	4,332,639	5,229,966	**6,031,523**