

INTERIM REPORT

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Chinasoft International Limited
中軟國際有限公司*

Stock Code: 0354

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2 HIGHLIGHTS

Results for the first half of 2018			
	For the six months ended 30 June		
	2018	2017	
Income statement highlights	(unaudited)	(unaudited)	% Change
	RMB'000	RMB'000	
Revenue	4,813,853	4,145,060	16.1%
Revenue from service	4,770,267	4,047,248	17.9%
Profit for the period	355,805	240,445	48.0%
Profit attributable to Owners of the Company	358,759	245,470	46.2%
Basic EPS (RMB cents)	14.87	10.26	44.9%
	(unaudited)	(audited)	
Statement of financial position highlights	30 June	31 December	% Change
	2018	2017	
	RMB'000	RMB'000	
Total assets	8,948,585	8,751,533	2.3%
Total liabilities	(3,308,763)	(3,521,567)	(6.0%)
Total equity	<u>5,639,822</u>	<u>5,229,966</u>	7.8%
<ul style="list-style-type: none"> The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018. No closure for the Register of Members of the Company. 			

Dear Investors:

During the first half of 2018, I believe that everyone underwent a unique moment of their investment career (some may even say it's the dark era). When the ZTE incident happened, the share price of the company took a hit, and even until now, it is still haunted by the "US-China Trade wars". Here is our interpretation, "If this is a hurdle that the whole country has to go through, we are even more responsible". We must remain patient, stick to our blueprint, and continue to carry out our vision and goal!

During the reporting period, the Group continued to develop in the strategic direction that we believed in:

1. FULL ON STRATEGIC COOPERATION

In terms of large customers: During the reporting period, the Company and Huawei Cloud's partnership strengthened. We were awarded "Huawei's Best Cloud Partner". The partnership achieved breakthrough in Malaysia, Myanmar, India and other regions. As Huawei's premier service provider, the Company was successfully selected into the "Huawei Supplier Development (SD) Plan". The plan was initiated by Huawei. Its goal was to replicate how British Telecom (BT) helped Huawei to become a strategic partner during the last decade. Through this initiative, our goal is not only to become Huawei's strategic supplier, but furthermore, to become Huawei's future core strategic partner. The two parties will together explore, solve problems, and share the business opportunities. Lastly, we can systematically learn this process, and use it to help service providers grow in JointForce.

During the reporting period, the HSBC business realized growth steadily. The Hang Seng bank business grew rapidly. The Group has become Hang Seng Bank's largest outsourcing service provider. The big data business grew rapidly especially in the securities industry. The accumulation of experiences and innovation contributed to the Company's leading position in the industry. During the reporting period, the Company and Baidu realized a strategic cooperation in the field of artificial intelligence, industry expansion, innovation, opened ecosystem, and other areas. The Company's business with Tencent grew rapidly, and its cloud services continued to expand. Lastly, the Ants Financial payment was implemented in Indonesia as it started to take shape.

In terms of smart manufacturing: During the reporting period, the Group formed strategic cooperation with ESI from France, Haier, Phoenix Contacts from Germany, Fast, Nari Information and Telecommunication and other well-known domestic and international enterprises. In the field of industrial simulation, we were able to integrate ESI's virtual simulation solution onto the cloud, and distributed to many Chinese manufacturers. We were able to use JointForce platform to establish an ecosystem for virtual simulation. We are going to combine the JointForce platform with Haier's COSMOPlat platform to realize traffic flow. We will also open up JointForce's product services, and help COSMOPlat platform to realize crowd purchasing of tailored Industrial software, full lifecycle management and platform access integration.

In terms of artificial intelligence: During the reporting period, the Company and Mr. Yao Qizhi initiated cooperation with the Nanjing Turning Artificial Intelligence Research Institute to establish the JointForce Turning Research Institute. Together, we will build the digital twins city and increase the rate of AI product development. Furthermore, we plan to participate and invest in the Turning Technological Fund to incubate AI projects and enterprises. They will integrate real estate's growth model and further establish its presences in the AI field.

II. JOINTFORCE TO LAUNCH THE "CLOUD INTEGRATIVE SERVICE"

During the reporting period, JointForce continued to roll out the "Cloud Software Parks" in the Jiangsu, Shandong, Hubei, Anhui, Chongqing, Zhejiang, Fujian, and etc., and continued to establish the JointForce ecosystem. Facing the government's software demand, JointForce launched the "Cloud Integrative Service", which includes internet + software transaction services, full-life application development management ADM butler service, enterprise big data-based software vendor digital due diligence DD service, and etc.. It was successfully implemented in Nanjing city and district. Through the Cloud Integrative Service's internet + software transaction model, Nanjing Government was able to shorten its purchasing period by 30%. Furthermore, online asset management is more standardized, and the overall management efficiency is significantly improved, achieving an end-to-end service model from procurement to delivery. We have established the Cloud Integrative Service with the Zheng Jiang Government, and are working with Xi'an Government to test out the pilot. This new business model is getting recognized, approved, applied, and promoted. We are very confident in the JointForce, its memberships and contractor fronts.

III. STRENGTHEN CLOUD SERVICE CAPABILITIES

Strengthening the cloud servicing capabilities has always been a key to the Company's strategic transformation. During the reporting period, building on the Huawei Cloud, the Company successfully introduced Microsoft Azure's mature service capabilities and developed a Microsoft enterprise solution, built on the Huawei cloud. The result was positive.

During the last few years, Microsoft's "cloud first, mobile first" transformation strategy was very successfully, and won the approval from the market and capital market. Microsoft has always been the Group's long term large customer, it has a leading position in the cloud, AI, IoT, and other technological fields. Recently, Microsoft is promoting the "Partner-led" strategy, welcoming partners to create a more vibrant ecosystem. Leveraging on our observation with Microsoft's strategy and the important strategic position of Microsoft in the Company's business, we plan to either through cooperation, acquisition, or other forms to strengthen our global Microsoft business. We will strengthen our cooperation with Microsoft and fully advocate the Company's cloud service capability upgrade.

Dear Investors: Being the first ITS enterprise to reach RMB10 billion in sales, we see the increase of higher demands because of the emerging trends. We will not shy away from promoting high-tech software development or supporting national technological innovation. Together with the China Electronic Information Industry Association, we plan to build an "Industrial Software International Cooperation Industrial Base" to carry out international cooperation in the industrial software industry for the pain points of design and simulation, production control, process control, intelligent physical and other manufacturing links, and enablement of the manufacturing industry. We will promote the development and application of core technologies.

We are eager to dedicate ourselves into the second "Global Programmer's Festival". It will ignite the engineer's (digital army!) passion for innovation, We will call out to six million engineers nationwide and thirty thousand key software enterprises to come together and realize the digital spirit. Special times calls for special means!

Looking back at the Company's core talents meeting held at the beginning of the year, we asked for "thought alignment, language unification, and action consistency". We are resolute towards the "create and share, to become a global ITS leader" vision. No matter what difficulties we face, we will continue forward, firmly.

We believe that after the dark era, a new sun that will shine out in a new day, we enjoy the wonderful journey.

Chairman
Chen Yuhong

Summer 2018

1. Emerging Business

- **JointForce (JF) – Software ecological cloud platform**

JointForce Platform has been officially launched for three years, it continued to enrich its services, upgrade its business model, and accelerated the growth of its servicing capabilities. JointForce now covers over 400 cities (districts and counties). The volume of the work posted in the first half of 2018 was RMB 1.2 billion, and has built a dedicated software development cloud ecosystem. During the reporting period, JointForce linked the demand side and supply side based on the mass ecological resources: It gathered and connected large numbers of software providers via the “Cloud Software Park”, connected the demands of manufacturing industry with the enabling platform of “honeycomb” industrial Internet, and connected the software service of governments based on the newly launched “Cloud Integrative Service” service platform, and has made great breakthroughs in both government market and intelligent manufacturing industry.

During the reporting period, aiming to meet the IT service demand for the governments, JointForce launched the “Cloud Integrative Service” solution. This solution, through establishing a cloud integrative service platform, provided government IT service projects with online purchase transaction services, project full life management ADM butler services, and digital due diligence on the providers based on enterprise big data. “Cloud Integrative Services” can shorten government’s purchasing by weeks, standardize software asset management, and improve management efficiencies and delivery qualities. During the reporting period, JointForce signed a strategic cooperation agreement with Nanjing Municipal Government. By utilizing the advantages such as leading service capability in the fields such as Internet, cloud computing and big data and the ability to connect large numbers of suppliers nationwide, JointForce built an “Internet + software transaction service platform”, simplifies the process of procurement transaction, strengthens the control of delivery and acceptance, and enhances the efficiency of government management in an all-round way. After the pilot, the platform has been deployed and further promoted in Yuhuatai District, which has effectively helped governments to simplify the procurement process and significantly shorten the procurement period. Now the government are actively exploring different policies to help promote and advocate this throughout the city. During the reporting period, the Group actively promoted its “Cloud Integrative Service” cooperation with the Xi’An Government and has entered into the pilot phase. Furthermore, the Group has reached strategic cooperation with Zhenjiang Government, promoting the cooperation with Zhenjiang in the field of “Internet + industrial innovation service platform”. All the work is progressing steadily. Aside from the mentioned cities, JointForce’s “Cloud Integrative Service” team has penetrated the top 50 GDP cities in the country and helped over tens of thousands of software service providers undergo digital due diligence, completing precision profiling. In 2017, these software providers provided close to RMB 30 billion worth of services to the government. Based on the demand of the government’s IT informationization and the Group’s understanding of the supplier’s appeal, the Group can continue to optimize the “Cloud Integrative Service” solution and lay a solid foundation for the solution to scale.

During the reporting period, "Cloud Software Parks" has been established rapidly in the provinces including Zhejiang, Shandong, etc. and services provinces and cities including Jiangsu, Shandong, Shanxi, Hubei, Anhui, Chongqing, Zhejiang, Fujian, and etc. JointForce Software ecosystem is being gradually constructed in different places in China. During the reporting period, JointForce Cloud Software Parks has completed ten platform construction of the park and continued to enhance the functions of the platforms.

During the reporting period, JointForce adhered to the "Key Integrators of Made in China 2025" developmental role, and established multiple strategic cooperation with well-known enterprises, research institutions and governments both domestically and internationally. During the reporting period, it has reached strategic cooperation with various enterprises, including ESI in France, Haier, Phoenix in Germany, Fast and Nari Information and Telecommunication in the field of industrial Internet platform. It reached a strategic cooperation with Nanjing Turing Artificial Intelligence Research Institute and strived to provide users with innovative, open and simple high-performance platform, reduce the threshold of the technologies such as machine learning and depth calculation, and accelerate the productization process of artificial intelligence technology industry. The Group worked with China Information Technology Industry Federation (CITIF) to advance the construction of "industrial software international cooperation industrial base", and facilitated international cooperation in the industrial software industry so as to alleviate the "pain points" of manufacturing industries, such as design simulation, production control, process control intelligent IoT, and other key processes. The Group continued to further cooperate with the governments from different regions, to jointly promote the upgrading of local manufacturing industries.

During the reporting period, JointForce built intelligent manufacturing service platform to promote the transformation and upgrading of manufacturing enterprises by taking "honeycomb" industrial Internet enabling platform as carrier and meeting the needs of intelligent upgrading of manufacturing enterprises. Through industrial diagnosis, industrial app stores, industrial software open source communities, and other enterprise facing (from software enterprises) services, Honeycomb will create a one stop shop for manufacturing cloud ecosystem with service, diagnostics, consultation, solutions, software development, and other services. During the reporting period, the "industrial diagnostic cloud APP" launched and won the honors of "Excellent Industrial Internet Platform 2018" and "Excellent Industrial APP 2018" of Industrial Internet Summit Forum 2018.

During the reporting period, JointForce Platform has achieved optimization and upgrading in many aspects in addition to making breakthroughs in government market and the intelligent manufacturing industry. JointForce continued its deep cooperation with Huawei software cloud, and leveraged the upgrade of Huawei Cloud and its software development cloud to build, on JointForce, an open access base for expansion service, allowing access to the third-party ecological tool and functions. Based on the best practice of software development management serving large customers, JointForce provides ADM cloud service and butler service, and effectively reduces the risks of project delivery and enhances delivery quality.

During the reporting period, JointForce upgraded benefits for members, launched member privilege 3.0, provided backend management tools, business analysis tools, and assisted enterprises in bidding. JointForce optimized and shortened the process of member's signup and their user experiences, expanded and optimized service categories (close to actual business scenarios). The AI+ big data intelligent recommendation system entered into 3.0 era, and the system's matching accuracy reached 92% (increased by 12% than that of previous patch). JointForce has completed over ten thousand enterprise's precision profiling and due diligence, accumulating a large data. This provided JointForce with the foundation for its enterprise evaluation model on capabilities, credit, and service providers.

- **Cloud Business**

During the reporting period, the Group strengthened its cooperation with Huawei in the fields of software development cloud, cloud solution and cloud service, etc., and continuously made breakthroughs in the fields of software service, manufacturing, finance and e-government. The Group's business scale grew rapidly and was recognized as the "Best Partner of Huawei Cloud".

During the reporting period, the Group's "Cloud Manager's" cloud consulting and cloud migration capabilities was significantly enhanced, including P2C, V2C, C2C, DB2C, D2C and other scenarios. In the field of cloud management, the Group designed and developed the service platform supporting proprietary intellectual property rights to comprehensively enhance the cloud's capability of operation and maintenance service. During the reporting period, the Group realized the certification of strict selection services and products of Huawei cloud; it was shortlisted for 100% third-party service software operation and maintenance supporting project of Huawei's e-government PaaS platform; it completed Huawei cloud and multiple e-government cloud migration projects, and provided cloud migration service for near 40 users and about 180 application and business systems, with the number of cumulatively migrated cloud hosts over 1,100 and total data volume near 700T.

During the reporting period, the Group introduced mature Azure-based cloud service capacity, built a joint team of China, the US and India, developed the Hosting solution of Huawei cloud Microsoft products, built service capability and realized the globalized layout of cloud services. Furthermore, the Group successfully developed cloud deployment solutions based on Microsoft enterprise application to provide enterprises with one-stop, multi-device, and fast-delivery enterprise applications on the public cloud, met the requirements of enterprise mailbox, on-demand collaboration and complex customer relations management and realized safe, controllable, low-cost and perfect after-sales service of data and flexible customization programs.

During the reporting period, as its enterprise cloud disk products reached leading position in the industry, the Group won the “China’s IT Service – Prize for Innovation Service 2018” awarded by MIIT, with its business expanded to the regions such as Southeast Asia and Africa. During the reporting period, the Group completed the R & D of enterprise cloud backup products based on cloud storage platform, and established the construction of experiment bureau in the field of manufacturing. Leveraging its cloud disk SaaS service capabilities and real life experiences, the Group completed the R&D of PaaS middleware cloud storage.

During the reporting period, the Group established Chinasoft International-Huawei cloud joint innovation center in Xi’an, working with the joint creation center of Nanjing Software Valley to offer the software enterprises in the two cities stable and convenience cloud service.

During the reporting period, the Group passed the certification of independent software vendor (ISV) of Tencent cloud and obtained Tencent Cloud’s subcontracting channel. Through passing the ISV certification, the Group also obtained Tencent’s rights to professional products. The Group, through its own research, developed video and music clip encryption solution, helped BBK Electronics to migrate to Tencent Cloud, and implemented audio and video distribution platform project.

- **Big Data**

During the reporting period, following the strategic setting of exploring deep into solutions and focusing on the industry, the Group continued to strive in different industries and won landmark project, continuing to expand its industry leading position. Focusing on finance, e-government, transportation, and other industries’ big data application, the Group formed a strategic partnership with Baidu in artificial intelligence, market expansion, and innovative technologies.

During the reporting period, the Group continued to focus on quality customer groups in the different fields of finance, and kept upgrading service content by combining the transformation demands of the industry. In banking, it worked with Internet and financial technology giants in China to build a whole-bank level big data analysis and mining platform for an urban commercial bank, and integrate internal and external data to significantly improve risk control level and marketing efficiency. It upgraded the products of the platforms such as data warehouse, data exchange, and smart mining using big data and AI technology, further explored the data business demands of banks, implemented the projects such as real-time pre-location, credit information integration, data mining and data management, implemented the projects such as data warehouse, data exchange, smart marketing, real-time risk control, credit approval and early warning in many banks and settlement centers based on big data technology, with the relevant solutions rapidly popularized in the branches and urban commercial banks in many places. In securities, the Group won the big data consultancy and implementation projects of large institutions

in many industries, including big data platform, data exchange standard control, bond trading, intelligent transaction monitoring, customer and enterprise image and etc., to provide pragmatic and efficient data engineering services with high technology content for the construction and intelligent front-line supervision and control of multi-level capital market. In commercial institutions, it entered the system construction of market risk control, pledge repurchase risk, interest rate swap and bill business and new generation website, etc. In insurance, it provided regulation and financial technology and services such as AI and big data for insurance supervision and operation institutions, completed the second batch of *Factor Data Specification of Insurance Services*, achieved the full coverage of insurance types of the element information of insurance services, and launched data intelligent service applications for lots of customers.

During the reporting period, the Group entered into a strategic cooperation with Ping An to participate in the development of the Shenzhen Smart IT project. The Group's cooperation with Ping An Insurance continued to strengthen and the partnership model continued to upgrade. Leveraging the Group's mobile and big data capabilities, the Group connected Ping An Insurance to its customers, and implemented the "Fast App".

During the reporting period, the Group completed phase 1 of Changping e-government cloud computing data center project, and preliminarily realized the first step of the "five-step" of Internet plus smart Changping. The project issued 13 standards and specifications, such as data resource management standards, information integration management standards, cloud resource management standards of the commissions, offices and bureaus in Changping District; built a resource management platform based on Huawei e-government cloud; built and perfected a data base management platform, such as the directory of data resources of the government affairs in Changping, exchange sharing, data governance, and operation monitoring; built a unified application integration framework and integrated workbench for the vertical management system of the whole district and the city, and built the four basic databases of population, legal person, geographic space and macro economy, and the two thematic databases of policies & regulations and public images.

During the reporting period, the engineering service methodology of big data was rapidly replicated in airport industry and formed smart airport solutions. The airport intelligent data center became one of its core business competitiveness. It won the bid for the project of intelligent data center system of Beijing Daxing International Airport, and built internationally leading big data analysis and processing and distributed computing storage platform. During the reporting period, it won the bid for the project of intelligent data warehouse construction of Wuhan Tianhe International Airport, and built an airport coordination platform based on unified standard system to help customers enhance airport management in an overall way. During the reporting period, phase 2 of the West Airport project was progressing smoothly, and many data applications would become the innovative content of building a smart airport.

During the reporting period, the Group continued to expand customers of one-card industry in the field of public transportation, won the bid for the data mining project of Jiangsu Traffic one-card platform, built the big data analysis and mining platform which contain the modules such as underlying data calculation, data model and algorithm library, and visualization portal to explore the value of one-card data, support the optimization of business process, improve service efficiency and quality, so as to lay a foundation for the construction of smart traffic in the whole province. During the reporting period, Beijing one-card big data platform project progressed smoothly, and continuously innovated and perfected solutions of the industry for mature customer projects.

2. Technical Services and Solutions Business

- **Huawei**

During the reporting period, the Group witnessed a steady growth in Huawei's business, and established a closer cooperation with Huawei cloud. At Huawei China Eco-partners Conference 2018, the Group was awarded the title of the "Best Partner of Huawei Cloud". The Group made substantial breakthroughs in its strategic cooperation with Huawei in the field of overseas software service, and implemented "Co-sell" model to operators in both Malaysia and Myanmar. Furthermore, its business scale of India technical service center continued to expand, and its Hong Kong joint innovation project progressed steadily. It developed steadily in the field of traditional technology and services, and its Huawei business was actively innovating. It learned and implemented the world's leading innovated concept of "zero distance", which allowed the Group to work more closely to customers, tackled the pain points of actual business, and improved the awareness of the staff's awareness to take the initiative to serve others. This improved customers' perception and cooperation levels, receive good results and entered into Huawei's "Supplier Development Plan".

- **Finance and Banking**

During the reporting period, the Group saw a steady growth in the large banking customer business and continued to occupy a dominant share in the product solutions and software development integration services of 15 large state-owned banks and joint-stock banks nationwide. The number of customers in the field of urban commercial banks and agricultural credit institutions continued to increase, covering the regions of Northeast, North China, East China, South China, and West China, etc., with the number of customers exceeding 200. The Group achieved an expansion rapidly in the field of large financial groups and non-bank financial institutions, cooperated with 30 customers to develop projects, with its project team scale of Unionpay and foreign exchange center growing rapidly.

During the reporting period, the Group witnessed a continuous and steady development in foreign bank business and a steady improvement in product coverage. It established an-depth partnership with 40 foreign banks in countries such as Japan, Korea, Europe and America, Southeast Asia, and Australia in the sub-sector business of Internet connection transactions, note business, domestic payment, and inter-bank system upgrading, with the coverage rate of some products exceeding 90% in the field of foreign banks. It realized the overseas sales of omni-channel order-receiving software from the top 5 well-known banks worldwide, and carried out projects overseas in many places in Southeast Asia.

During the reporting period, the Group increased its investment in product research and development and improved productization level. Its product R&D center integrated three regional R&D teams in Shanghai, Beijing and Guangzhou to focus on the research and development of popular market and potential demands such as bill, collection, supply chain, card-based payment, basic framework and data service. It had the products integrated with cutting-edge technologies such as automatic speech, machine learning, biological recognition, microservices and big data analysis to innovate businesses and upgrade products.

- **HSBC**

During the reporting period, the Group realized a steady growth and innovation in domestic business. It better met customers' demands through "zero-distance" innovation, kept improving management capabilities, delivery quality and delivery efficiency. Moreover, it expanded overseas markets and achieved initial success.

During the reporting period, the Group took over HSBC risk control department's key project to fully monitor the risk of its client laundering money and analyzed in depth its customers value. This project can provide data support for up to 30 million key customers from over 70 countries and regions. The Group, as the key developer for HSBC's mobile banking APP, completed two major patches, launched new versions in China, England, and Singapore, and optimized user experience. The Group helped HSBC to realize a new online banking system infrastructure upgrade, resulting in the online banking business to grow 30% YoY. The Group participated in the development of HSBC's third generation global commercial banking platform and helped HSBC realize customer customization services and smart assistances. During the reporting period, the HSBC SME digitalization business transformation achieved a breakthrough in global servicing capabilities. The Group's delivery team in Xi'an surpassed England and India, gaining competitive advantages. The Group provided a new generation smart search and reporting solution and applied it its customer's core system. This was highly recognized by the customers and will be rolled out to more countries and increase promotion for it.

During the reporting period, the Group actively duplicated HSBC's business model to different banking customers and the oversea market. Hang Seng Bank's line of business grew exponentially, and became its biggest outsourcer for Hang Seng Bank. The Group participated in Hang Seng Bank's third generational global personal banking and commercial banking platform development. This project has been implemented in China, Hong Kong, Macau, Singapore, and received praises from the customers. During the reporting period, the Group explored new Hong Kong customers including China Construction Bank Asia, Bank of Communications Hong Kong, Bank of China Hong Kong, and formally established ODC in Xi'an. The Group continued to push the Malaysia business, developing a visualization application solution with local suppliers. This solution will be tested in the Malaysian Central Bank Building.

- **Insurance and securities industry**

During the reporting period, the steady development of the business of large customers were maintained, including Taikang Insurance, Pacific Insurance, CIITC, China Life Insurance, PICC Insurance, Sunshine Insurance, and Anbang Insurance. Sunshine Property Insurance Intelligent Life Table, Insurance Product Competitive Product Analysis, China People Insurance Smart Renewal Platform and other projects launched successfully. The Group entered into an in-depth cooperation with AIA Insurance Asia Pacific and AIA Insurance China. During the reporting period, the Group took an active part in the construction of industry standards, and completed the second batch of the *Specification of Insurance Services Factor Data* under the leadership of insurance regulatory agencies.

During the reporting period, the Group continued to expand in the securities industry at a high speed, obtaining consulting and implementation projects in multiple directions of big data. It participated extensively into data standard control, bond trading, intelligent monitoring of transaction, and planning and construction of customer and corporate images; explored the intelligent application of data in the directions such as public opinion, risk transmission and connected account, and achieved initial success; and entered multiple fields such as the market risk control of financial institutions. The securities big data business led the industry with industry experience and innovation, and has formed three business pillars together with the previous core liquidation and outsourcing development.

- **Telecom Internet and mobile terminal**

During the reporting period, the Group saw a rapid growth of Tencent's software service business. Its Guangzhou Region WeChat business grew rapidly, and worked closely with WeChat (towards "big direction") to build an ecosystem. This received high recognition from the customer. The Group worked with WeSure, a subsidiary of Tencent, and landed its first project. Furthermore, the Group strengthened its collaboration with QQ Music. During the reporting period, the Ants Financial oversea payment project was launched in Indonesia, with over 100 employees. Lastly, Ali MaMa's advertisement review business was successfully implemented.

During the reporting period, the Group won the bid for R&D and testing of outsourcing services 2018 project of China Mobile Suzhou R&D Center, and signed R&D Outsourcing Service Manufacturer Framework Agreement 2018 with Fiber Home Telecommunication Technologies Co., Ltd. The Group successfully kick-started Guangzhou Excellent Review ODC project's offline operation. Lastly, the Group signed an interest of collaboration with NetEase Hangzhou Research Institute, and became its first outsourcing partner.

- **High-tech Business**

During the reporting period, the Group broadened its global collaboration with Microsoft. On top of the original five cities in the U.S. that collaborated, the Group started working with Microsoft in India and Singapore, and planning with work with them in Canada and Mexico. In terms of the emerging business, the Group fully understands the direction of Microsoft's Cloud + AI strategy. The Group actively promoted the collaboration of Azure and its AI voice recognition capabilities. The Group has matured Azure and AI voice recognition team, and will promote this solution along Microsoft.

During the reporting period, the Group continued to improve its IoT solutions and technical service capabilities, breakthrough its technological ceilings, and improved its R&D capabilities. The Group won the bid for the GE THINKING WORK IoT platform project, helping GE's project to have global reach. The Group also provided IoT software development, testing, layout, and maintenance services in the remote vehicle management and medical equipment field. In the medicine testing field, the Group completed a comprehensive solution. During the reporting period, the Group formed a Nearshore delivery center in Malaysia to provide Singapore Power and other regional customers with Nearshore + offshore delivery services.

During the reporting period, the Group reached a cooperation with China Mobile in the IoT field. The two will combine their advantages from both parties and together create IoT industry capabilities and push multiple IoT application projects. During the reporting period, the Group started collaboration with iFLYTEK in smart family, smart city, smart education, and etc.. Many projects were successfully implemented. The Group won the bid for iFLYTEK's 2018-2019 research support project, as well as other related projects.

During the reporting period, SF Express's business developed steadily and passed the regional audit of the BPO business to become the first BPO supplier in SF Wuhan. The Group's SF business has covered many fields such as Express, Fengchao, SF Airlines, and SF Express, and has simultaneously expanded its SF business such as Fengsheng, Fengyi and Fengqi.

During the reporting period, the Japanese business grew steadily, the ITO business grew exponentially and the local team scale exceeded 100. It expanded from a single NEC business to Hitachi, Sony, Ricoh, Omron, Nippon Steel and many other customers. Combined with the trend of Japan's nearshore delivery, the Group has established presence in local cities such as Tokyo, Kyushu, Nagoya and Osaka, laying a good foundation for the subsequent business development.

During the reporting period, the ODC business of real estate customers grew rapidly. Mingyuan Real Estate's ODC business has been transformed from an outsourcing model to an independent delivery model. The delivery team member in Wuhan, Changsha and Xi'an have reached a scale of 100. The Group leverages real estate ERP capabilities to expand new real estate clients such as Jinke, Chun'an and R&F.

- **Government Business**

During the reporting period, the Group constantly innovated and steadily improved its government business. The Group continued to make further exploration in its advantageous field of auditing informatization and transformed its catalog from services to products. The Group expanded customers in new industries such as customs, and won landmark projects.

During the reporting period, the Group maintained its leading position the audit IT field. The Group established landmark projects from different levels of provincial customers. The Shanghai digitalization smart audit project, Da Ya Wan's digitalization audit system received high recognition from customers, and the China Postal Savings Bank Audit Management System phase one was successfully completed. The Group launched an upgraded "Chinasoft Audit Analysis Platform" and realized full coverage in audit data analysis, business, and processes. It was implemented in Shanghai Pudong New Area, Beijing Chaoyang District, and etc.. During the reporting period, the Group participated in the evaluation of awards in audit IT planning, top level design, big project planning, and innovation of the Jiangsu, Shandong, and other regions. The Group provided high value-added consulting services for the customers. The Group partnered with multiple regional customers to provide audit services, and formed profession industry audit servicing model. Stable relationships were established in Shanghai, Beijing, Hubei, and other regions.

During the reporting period, the Group launched the "Internet + Customs" integrated platform project for the pionerring project of the overall upgrading of the external service system of General Administration of Customs. Using technologies of Internet, big data and cloud computing, this project integrated customs government services and business information, built a government service platform and portal, and provided online and offline one-stop government services, aiming to achieve unified management, application, monitoring and feedback of government services.

- **Manufacturing and Circulation**

During the reporting period, the Group witnessed a steady growth in manufacturing and circulation business, continued to explore in the field of MES, successively won the bids for multiple MES construction and upgrading projects in Guizhou, Guangdong, Shandong, Ningbo, and Guangzhou, and started the implementation of MES project of Bengbu Cigarette Factory.

During the reporting period, the Group won the bid for the procurement standard management system project of State Tobacco Monopoly Administration and the provincial procurement standard management system of 11 provinces. During the reporting period, the Group won the bid for the total integrator project of the unified platform of the industry in local and municipal units in China, to complete the acceptance check of the unified platform of the industry.

- **Public Utilities (Transportation and Energy)**

During the reporting period, the Group scored a continuous and stable growth in the transportation business, and smoothly started its energy business by working with Huawei.

During the reporting period, the Group continued its leading position in the clearing field in the railway transportation industry, and continued to improve by developing mobile payment applications. The Group won the bid for Qingdao Metro Line Network QR code application transformation project, Chengdu Metro Line Network QR code application transformation project, Lanzhou Metro UnionPay ODA application and other projects, as well as Changsha Rail Transit Internet ticketing platform system equipment procurement and integration project. Among them, Changsha City's projects covered QR code, Bluetooth, NFC, financial IC card, ID card, face recognition, biometrics, credit payment and other forms of payment, which have a good demonstration in the industry.

During the reporting period, the Group participated in the standardization planning of the Chinese City Railway Transportation Group (national group). Using the cloud technology, the Group designed a new automated ticketing system under the next generation IT infrastructure. In the ports field, the Group successfully launched the Ningbo Port E-Commerce platform. This is a paperless system that is highly approved by the industry.

During the reporting period, the Group made great strides in the overseas electricity and energy market, and independently developed power marketing products and Huawei powered front-end connection management platform to provide customers with end-to-end overall power solutions to jointly build a power IoT ecosystem. The Group completed the strategic layout of the power market in Southeast Asia and North and South Africa, and delivered two experimental bureaus in Southeast Asia and South Africa respectively. Furthermore, it won the bid for a power AMI in Southeast Asia and an AMI Arabic customization project in Africa.

- **Catapult**

During the reporting period, Catapult won the title of the "Best Partner of Microsoft US" for two years in a row, earned 12 gold medals, 2 silver medals, and gained new competitiveness in the field of DevOps. Through its Microsoft Azure cloud migration service, it was recognized by Microsoft Inspire Worldwide Partner Conference 2018 and became the Azure Compete Winner of Partner of Microsoft US in 2018.

During the reporting period, Catapult introduced its subscription business model and launched " Azure Management Services (AMS)". AMS utilizes a scalable model to provide optimization services in the cloud environment. The customers, through monthly payments, can purchase one of the three tier packages. The first is Basic AMS, which allows the customers to understand its Azure cloud environment. The Standard AMS, not only provides the Basic AMS, but also provides analysis to come up with solutions to improve. The Premier AMS, on top of Basic and Standard AMS, helps the customer to optimize its cloud environment and help it increase rigidity, decrease risks and costs.

- **Training (ETC) Business**

During the reporting period, the Group's B2B business grew rapidly. The Group's key initiative was to establish in-depth cooperation with partnering institutions. The Group actively pushed its smart education cloud business, and realized phase 1 and 2 projects in Beijing Institute of Technology and Fujian Sanming University. During the reporting period, the Group completed the signing of a talent training industrial base (double-creation base) with Ningbo and Rugao local government industrial parks.

KEY OPERATING DATA

During the first half of 2018, the Group's businesses achieved high growths. The revenue, service revenue, profit for the period, profit attributable to the owners of the Company, and EPS increased by 16.1%, 17.9%, 48.0%, 46.2%, and 44.9% YoY.

	Six Months ended 30 June		
	2018 RMB'000	2017 RMB'000	% Change
Revenue	4,813,853	4,145,060	16.1%
<i>Service revenue</i>	4,770,267	4,047,248	17.9%
Profit for the period	355,805	240,445	48.0%
Profit attributable to Owners of the Company	358,759	245,470	46.2%
Basic EPS (RMB cents)	14.87	10.26	44.9%

The key operating data (unaudited) for the six months ended 30 June 2018 are as follow:

	Six Months ended 30 June		
	2018 RMB'000	2017 RMB'000	% Change
Revenue	4,813,853	4,145,060	16.1%
<i>Service revenue</i>	4,770,267	4,047,248	17.9%
Cost of Sales	(3,423,801)	(3,002,387)	14.0%
Gross Profit	1,390,052	1,142,673	21.6%
Other income	18,945	32,766	(42.2%)
Other gains and losses	3,737	1,113	235.8%
Selling and distribution expenses	(233,003)	(146,944)	58.6%
Other expenses	(36,641)	(41,759)	(12.3%)
Administrative expenses	(679,967)	(659,774)	3.1%
Finance Costs	(59,290)	(43,064)	37.7%
Allowance for doubtful debts	(145)	(1,401)	(89.7%)
Share of results of investments accounted for using the equity method	(15,265)	(15,509)	1.6%
Profit before taxation	388,423	268,101	44.9%
Income tax expense	(32,618)	(27,656)	17.9%
Profit for the period	355,805	240,445	48.0%

GENERAL OVERVIEW

For the first half of 2018, the Group accelerated its global service layout with its cloud driven digitalization services and achieved positive progresses in different business lines. In 2018, the Group ranked 7th in the latest “Top 100 Most Competitive Chinese Software Enterprises” (and continues to climb in rankings), and became the backbone of China’s software and ITS development. It plays a leading role in industrial innovation and transformations of government and enterprise customers.

During the reporting period, the Group continued its in-depth partnerships with large customers including Huawei, HSBC, Tencent, Ping-An, and etc. Through its “zero distance” innovative service, the Group understood its customers’ demands better, improved its management capabilities, and increased quality and delivery efficiencies. Furthermore, the Group combined cloud services with its Internet platform to provide Chinese and global enterprises with more capabilities, values, and more smart technologies, creating a new ecosystem in the digital world. During the reporting period, the emerging business, largely represented by JointForce, cloud and big data businesses, achieved high growth. The revenue of the emerging business was RMB741.655 million and accounted for 15.4% of the total revenue, representing a YoY growth of 95%. Through the accelerated implementation of the transformation strategy, the Group’s revenue structure and profitability improved during the reporting period. The new generation cloud driven, platform IT enterprise’s value will continue to blossom.

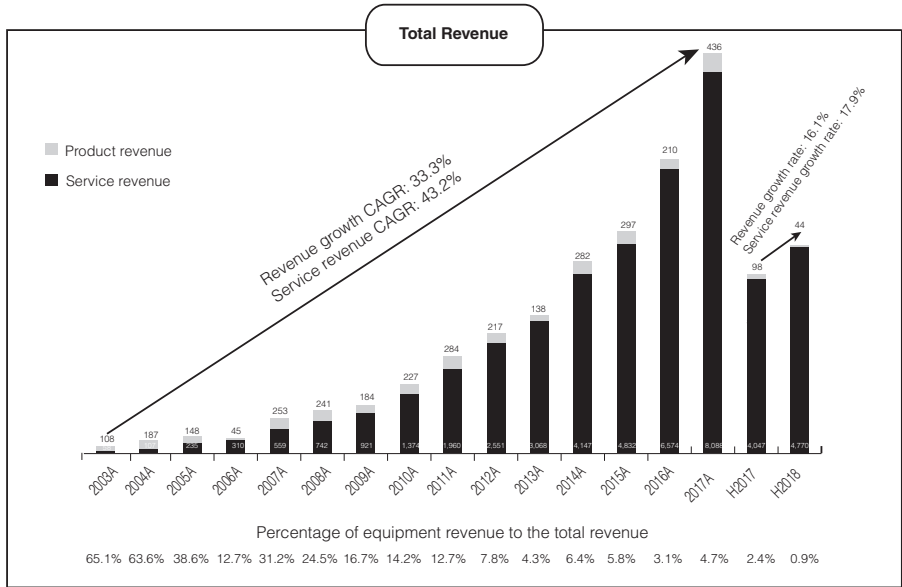
During the reporting period, JointForce continued to enrich its services, upgrade its business model, and accelerated the growth of its servicing capabilities. JointForce now covers over 400 cities (districts and counties). The volume of the work posted in the first half of 2018 was RMB 1.2 billion. JointForce has established a cloud ecosystem focusing on software development. During the reporting period, JointForce launched its “Cloud Integrative Service” solution. This solution, through establishing a cloud integrative service platform, helps the government with IT services, including online purchasing services, due diligence for service providers based on enterprise big data. This solution is in operation in Nanjing, has reached a pilot phase in Xi’an, and reached a strategic agreement with the Zhejiang government. Furthermore, JointForce’s “Cloud Integrative Service” team has penetrated the top 50 GDP cities in the country and helped over tens of thousands of software service providers undergo digital due diligence, completing precision profiling. During the reporting period, “Cloud Software Parks” continued its fast promotion in Zhejiang, Shandong, and other provinces, while marking its presence in Jiangsu, Shandong, Hubei, Anhui, Chongqing, Zhejiang, Fujian, and other provinces. In these regions, JointForce ecosystems are beginning to form. Adhering to the “China Manufacture 2025 Core Integrator” initiative, JointForce formed strategic partnerships with the both domestic and international well-known enterprises, research institutes, and governments. The partnership will aggregate intelligent manufacturing’s innovative resources and results, and together push towards the development of China intelligent manufacturing upgrade. JointForce will use the “Honeycomb” industrial Internet platform as a vehicle, build a service platform around the intelligent upgrade requirements of manufacturing enterprises, and promote the transformation and upgrading of manufacturing enterprises.

During the reporting period, the cloud business grew steadily, and the Group's cloud service capabilities improved significantly. The Group successfully expanded its Huawei Cloud and Tencent Cloud business scope. The Group's partnership with Huawei in software development, cloud solutions, cloud services, and etc. continued to be strengthened, and the business volume grew rapidly. The Group was recognized as "Huawei Cloud's Best Partner". Through Tencent Cloud's Independent Service Vendor (ISV) verification, the Group received Tencent Cloud's subcontracting channel. The enterprise cloud disk product's performance achieved industry leading position, and expanded its business to Southeast Asia, Africa, and etc. The Group introduced Azure-based mature cloud service capabilities and formed joint international teams in China, America, and India. The Group established serving capabilities, solutions allowing Microsoft products to be hosted on Huawei cloud, and realized a global cloud servicing layout.

During the reporting period, the Group's big data business continued to expand and consolidate its industry advantages by implementing its in-depth industry-based solution strategy. The Group won several iconic big data projects in finance, government, airports, transportation, and other industries.

In the future, with new opportunities provided by digital china and its transformation, the Group will further penetrate the government and enterprise market, through the Jointforce platform, export new technologies, establish new businesses, build new ecosystems, and create new capabilities. The Group will fully utilize its cloud services and IT design capabilities to continue to upgrade its business model and optimize its revenue structure. The Group will continue to become a global ITS leader with comprehensive strengths and innovative capabilities.

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 33.3% and 43.2% from 2003-2017. For the first half of 2018, the revenue and service revenue achieved YoY growths of 16.1% and 17.9%. 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 the first half of 2018, the top five and top ten customers accounted for 67.7% and 72.2% of the Group's service revenue.

As of 30 June 2018, the Group has 110 large customers (contributed to more than RMB 6 million of service revenue within the past 12 months).

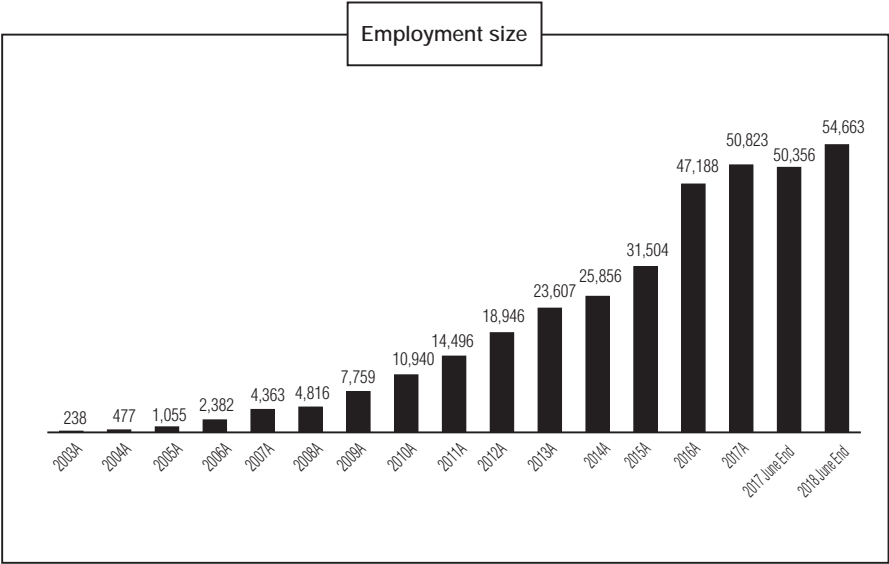
Market

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 centers in America, Japan, India, Malaysia, Singapore, Mexico and etc.. 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 30 June 2018, the Group has a total of 54,663 employees, representing an increase of 8.6% YoY.

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



Operating Results

The following is the Group's consolidated comprehensive income statement for the first half of 2017 and 2018 (unaudited):

	2018			2017		
	For the first half RMB'000	% of Revenue	% of Service Revenue	For the first half RMB'000	% of Revenue	% of Service Revenue
Revenue	4,813,853	N/A	N/A	4,145,060	N/A	N/A
Service Revenue	4,770,267	N/A	N/A	4,047,248	N/A	N/A
Costs of Sales	(3,423,801)	(71.1%)	(71.8%)	(3,002,387)	(72.4%)	(74.2%)
Gross Profit	1,390,052	28.9%	29.1%	1,142,673	27.6%	28.2%
Other income	18,945	0.4%	0.4%	32,766	0.8%	0.8%
Other gains and losses	3,737	0.1%	0.1%	1,113	0.0%	0.0%
Selling and distribution costs	(233,003)	(4.8%)	(4.9%)	(146,944)	(3.5%)	(3.6%)
Other expenses	(36,641)	(0.8%)	(0.8%)	(41,759)	(1.0%)	(1.0%)
Administrative expenses	(679,967)	(14.1%)	(14.3%)	(659,774)	(15.9%)	(16.3%)
Finance costs	(59,290)	(1.2%)	(1.2%)	(43,064)	(1.0%)	(1.1%)
Allowance for doubtful debts	(145)	0.0%	0.0%	(1,401)	(0.0%)	(0.0%)
Share of results of investments accounted for using the equity method	(15,265)	(0.3%)	(0.3%)	(15,509)	(0.4%)	(0.4%)
Profit before taxation	388,423	8.1%	8.1%	268,101	6.5%	6.6%
Income tax expense	(32,618)	(0.7%)	(0.7%)	(27,656)	(0.7%)	(0.7%)
Profit for the period	355,805	7.4%	7.5%	240,445	5.8%	5.9%
Profit attributable to owners of the Company	358,759	7.5%	7.5%	245,470	5.9%	6.1%

Revenue

For the first half of 2018, the Group's revenue was RMB4,813.853 million, representing a YoY growth of 16.1% (2017H1: RMB4,145.060 million). The Group's service revenue was RMB4,770.267 million, representing a YoY growth of 17.9% (2017H1: RMB4,047.248 million). The growth came mainly from the core big customers, and the high growths of emerging businesses including cloud, big data, and Jointforce.

For the first half of 2018, the segment's revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2018 RMB'000	% of Total	Six Months Ended 30 June 2017 RMB'000	% of Total	Growth Rate
Technical Professional Services Group (TPG)	4,029,252	83.7%	3,511,450	84.7%	14.7%
Internet IT Services Group (IIG)	784,601	16.3%	633,610	15.3%	23.8%
Total	4,813,853	100%	4,145,060	100%	16.1%

For the first half of 2018, the segment's service revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2018 RMB'000	% of Total	Six Months Ended 30 June 2017 RMB'000	% of Total	Growth Rate
Technical Professional Services Group (TPG)	4,011,444	84.1%	3,460,084	85.5%	15.9%
Internet IT Services Group (IIG)	758,823	15.9%	587,164	14.5%	29.2%
Total	4,770,267	100%	4,047,248	100%	17.9%

Cost of Sales

For the first half of 2018, the Group's cost of sales was RMB3,423.801 million, representing a YoY increase of 14.0% (2017H1: RMB3,002.387 million). The Group's cost of sales was 71.1% of the Group's total revenue, representing a YoY decrease 1.3% (2017H1: 72.4%).

Gross Profit

For the first half of 2018, the Group's gross profit was RMB1,390.052 million, representing a YoY growth of 21.6% (2017H1: RMB1,142.673 million). The Group's gross margin was 28.9%, representing a YoY increase of 1.3% (2017H1: 27.6%). The Group's gross margin (to total service revenue) was 29.1%, representing a YoY increase of 0.9% (2017H1: 28.2%). The main reason for the increase of the gross margins is because of the increase of revenue (and proportion to total revenue) from the emerging business, which has a higher gross margin comparing to that of the traditional businesses.

Other Income

For the first half of 2018, the Group's other income was RMB18.945 million, representing a YoY decrease of 42.2% (2017H1: RMB32.766 million). The main reason for this decrease is because of the decrease of government subsidies.

Other Gains and Losses

For the first half of 2018, the Group's other income was RMB3.737 million, representing a YoY increase of 235.8% (2017H1: RMB1.113 million). The main reason of this increase is because of the fluctuations in the exchange rate of the US dollar, Japanese yen, and Hong Kong dollar against the RMB during the reporting period.

Operating Expenses

For the first half of 2018, the Group's selling and distribution expenses were RMB233.003 million, representing a YoY increase of 58.6% (2017H1: RMB146.944 million). The Group's selling and distribution expenses accounted for 4.8% of the revenue, representing a YoY increase of 1.3% (2017H1: 3.5%). 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 overseas coverage and increased overseas sales and market investment.

For the first half of 2018, the Group's administrative expense was RMB679.967 million, representing a YoY increase of 3.1% (2017H1: RMB659.774 million). The Group's administrative expense accounted for 14.1% of the revenue, representing a YoY decrease of 1.8% (2017H1: 15.9%).

Finance Costs and Income Tax

For the first half of 2018, the Group's finance costs was RMB59.290 million, representing a YoY increase of 37.7% (2017H1: RMB43.064 million). The Group's finance costs accounted for 1.2% of the revenue, representing a YoY increase of 0.2% (2017H1: 1.0%). The main reason for this increase is because of the increase in the actual interest on the convertible loan notes during the reporting period.

For the first half of 2018, the Group's income tax was RMB32.618 million, representing a YoY increase of 17.9% (2017H1: RMB27.656 million).

Other Non-Cash Expenses

For the first half of 2018, the Group's amortization of intangible assets was RMB36.641 million, representing a YoY decrease of 12.3% (2017H1: RMB41.759 million). The Group's amortization of intangible assets accounted for 0.8% of the revenue, representing a YoY decrease of 0.2% (2017H1: 1.0%).

For the first half 2018, the Group's allowance for doubtful debt was RMB0.145 million representing a YoY decrease of 89.7% (2017H1: RMB1.401 million). The Group's allowance for doubtful debt for the interim period was provided specifically with reference to the collectability of trade receivables. At the year end, the allowance for doubtful debt will be adjusted with reference to the collectability and aging analysis of trade receivables.

Profit for the Period and Earnings Per Share (EPS)

For the first half of 2018, the Group's profit was RMB355.805 million, representing a YoY growth of 48.0% (2017H1: RMB240.445 million). The Group's profit accounted for 7.4% of the revenue, representing a YoY increase of 1.6% (2017H1: 5.8%). The Group's profit accounted for 7.5% of the service revenue, representing a YoY increase of 1.6% (2017H1: 5.9%).

For the first half of 2018, the Group's profit attributable to the owners of the Company was RMB358.759 million, representing a YoY growth of 46.2% (2017H1: RMB245.470 million).

Based on the profit attributable to the owners of the Company, the Group's EPS was RMB14.87 cents for the first half of 2018, representing a YoY growth of 44.9% (2017H1: RMB10.26 cents).

Segment Revenue and Results

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

	Revenue			Service Revenue			Results		
	Six Months Ended 30 June 2018 RMB'000	Six Months Ended 30 June 2017 RMB'000	Growth Rate	Six Months Ended 30 June 2018 RMB'000	Six Months Ended 30 June 2017 RMB'000	Growth Rate	Six Months Ended 30 June 2018 RMB'000	Six Months Ended 30 June 2017 RMB'000	Growth Rate
Technical Professional Services Group (TPG)	4,029,252	3,511,450	14.7%	4,011,444	3,460,084	15.9%	424,265	368,493	15.1%
Internet IT Services (IIG)	784,601	633,610	23.8%	758,823	587,164	29.2%	84,574	48,690	73.7%
Total	4,813,853	4,145,060	16.1%	4,770,267	4,047,248	17.9%	508,839	417,183	22.0%

In terms of segment revenue, TPG's revenue and service revenue achieved a YoY growth of 14.7% and 15.9%. The main contribution to this growth not only came from the growth of large core customers including Huawei, HSBC, Tencent, Ping An, and etc., but also from the fast growths of cloud and big data businesses. IIG's revenue and service revenue achieved a YoY growth of 23.8% and 29.2%. 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 15.1%, about the same as that of the revenue growth. IIG's result achieved a massive YoY growth of 73.7%, much higher than that of the revenue or service revenue growths. This main reason is because of the fast growth of Jointforce, which contributed to IIG's overall profit margin.

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

Fundraising Activities

During the current interim 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 interim 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	Not yet utilised as at 30 June 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 30 June 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.

INTERIM RESULTS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June	
	Notes	2018 RMB'000	2017 RMB'000
Turnover	3	4,813,853	4,145,060
Cost of sales		(3,423,801)	(3,002,387)
Gross profit		1,390,052	1,142,673
Other income		18,945	32,766
Other gains and losses		3,737	1,113
Selling and distribution costs		(233,003)	(146,944)
Administrative expenses		(679,967)	(659,774)
Allowance for doubtful debts		(145)	(1,401)
Other expenses		(36,641)	(41,759)
Finance costs	4	(59,290)	(43,064)
Share of result of investments accounted for using the equity method		(15,265)	(15,509)
Profit before taxation		388,423	268,101
Income tax expense	5	(32,618)	(27,656)
Profit for the period		355,805	240,445
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		(1,867)	(8,712)
Total comprehensive income for the period		353,938	231,733
Profit for the period attributable to:			
Owners of the Company		358,759	245,470
Non-controlling interests		(2,954)	(5,025)
		355,805	240,445
Total comprehensive income attributable to:			
Owners of the Company		356,892	236,758
Non-controlling interests		(2,954)	(5,025)
		353,938	231,733
Earnings per share	7		
– Basic (cents)		14.87	10.26
– Diluted (cents)		14.00	10.19

		(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
	Notes		
Non-current assets			
Property, plant and equipment		842,591	852,519
Intangible assets		160,693	179,450
Goodwill		996,789	996,789
Investments accounted for using the equity method		117,953	133,218
Available-for-sale investment		–	65,342
Financial assets at fair value through other comprehensive income		65,342	–
Prepaid lease payments		37,433	37,863
Other receivable		30,000	30,000
Deferred tax assets		7,519	7,504
		<u>2,258,320</u>	<u>2,302,685</u>
Current assets			
Inventories		35,301	26,024
Trade and other receivables	8	2,749,104	1,960,240
Bills receivable		–	11,909
Prepaid lease payments		860	860
Contract assets		2,827,807	–
Amounts due from customers for contract work		–	2,579,998
Amount due from related companies		128,908	83,854
Pledged deposits		1,681	658
Bank balances and cash		946,604	1,785,305
		<u>6,690,265</u>	<u>6,448,848</u>
Current liabilities			
Trade and other payables	9	1,150,671	1,584,295
Bills payable		983	20,473
Contract liabilities		80,264	–
Amounts due to customers for contract work		–	44,572
Amounts due to related companies		47,231	59,151
Dividend payable to shareholders		78	78
Taxation payable		160,555	157,699
Borrowings	10	949,950	685,750
		<u>2,389,732</u>	<u>2,552,018</u>
Net current assets		<u>4,300,533</u>	<u>3,896,830</u>
Total assets less current liabilities		<u>6,558,853</u>	<u>6,199,515</u>

30 CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
	<i>Notes</i>		
Non-current liabilities			
Deferred tax liabilities		13,858	15,904
Convertible loan notes		905,173	953,645
		<u>919,031</u>	<u>969,549</u>
		<u>5,639,822</u>	<u>5,229,966</u>
Capital and reserves			
Share capital	11	111,394	110,283
Share premium		2,839,053	2,809,329
Reserves		2,628,164	2,246,189
		<u>5,578,611</u>	<u>5,165,801</u>
Equity attributable to equity holders of the Company		61,211	64,165
Non-controlling interests		<u>5,639,822</u>	<u>5,229,966</u>
Total equity			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

31

	Attributable to the owners of the company												
	Share capital	Share premium	Hedging reserve	Translation reserve	Share options reserve	Convertible loan notes reserve	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 period	-	-	-	-	-	-	-	-	-	245,470	245,470	(5,025)	240,445
Exchange differences arising from translation of overseas operations	-	-	-	(8,712)	-	-	-	-	-	-	(8,712)	-	(8,712)
Total comprehensive income for the period	-	-	-	(8,712)	-	-	-	-	-	245,470	236,758	(5,025)	231,733
New issue of shares upon exercise of share option	3,896	181,652	-	-	(22,167)	-	-	-	-	-	163,381	-	163,381
Recognition of equity-settled share based payments	-	-	-	-	71,537	-	-	-	-	-	71,537	-	71,537
Cancellation of share options	-	-	-	-	(3)	-	-	-	-	-	(3)	-	(3)
Dividend paid (2016 final dividend)	-	(25,019)	-	-	-	-	-	-	-	-	(25,019)	-	(25,019)
At 30 June 2017	110,283	2,809,330	(122,769)	12,745	137,707	23,544	15,793	26,749	129,901	1,567,585	4,710,868	63,400	4,774,268
At 1 January 2018	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
Profit for the period	-	-	-	-	-	-	-	-	-	358,759	358,759	(2,954)	355,805
Exchange differences arising from translation of overseas operations	-	-	-	(1,867)	-	-	-	-	-	-	(1,867)	-	(1,867)
Total comprehensive income for the period	-	-	-	(1,867)	-	-	-	-	-	358,759	356,892	(2,954)	353,938
New issue of shares upon exercise of share option	61	4,635	-	-	(733)	-	-	-	-	-	3,963	-	3,963
Recognition of equity-settled share based payments	-	-	-	-	25,816	-	-	-	-	-	25,816	-	25,816
Conversion of convertible loan notes	1,050	61,962	-	-	-	-	-	-	-	-	63,012	-	63,012
Dividend paid (2017 final dividend)	-	(36,873)	-	-	-	-	-	-	-	-	(36,873)	-	(36,873)
At 30 June 2018	111,394	2,839,053	(122,769)	(33,341)	241,213	124,174	15,793	26,749	147,455	2,228,890	5,578,611	61,211	5,639,822

32 CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Net cash used in operating activities	(868,958)	(618,007)
Net cash used in investing activities	(141,880)	(122,736)
Net cash generated from financial activities	<u>173,283</u>	<u>497,835</u>
Net decrease in cash and cash equivalents	(837,555)	(242,908)
Effect of foreign exchange rate changes	(3,307)	(1,553)
Cash and cash equivalents at the beginning of the period	<u>1,785,797</u>	<u>1,298,972</u>
Cash and cash equivalents at the end of the period	<u>944,935</u>	<u>1,054,511</u>

1. BASIS OF PRESENTATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as at 1 January 2018.

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

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 40	Transfers of Investment Property
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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

The Group adopted HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on 1 January 2018, using a modified retrospective method. The Group did not restate the comparative information and recognized the transitional adjustments to the opening balance of retained earnings at 1 January 2018. The impact of adoption of HKFRS 9 and HKFRS 15 on the Group is as follows:

The Group has performed an assessment on the impact of the adoption of HKFRS 9, except the balance of available-for-sale investments of RMB65.342 million as at 1 January 2018 was reclassified to financial assets at fair value through other comprehensive income, no other material impact on the Group's financial statement, therefore no adjustments to the opening balance of equity at 1 January 2018 was recognized.

The Group has performed an assessment on the adoption of HKFRS 15 and concluded that no material impact on the Group's financial statement, therefore no adjustments to the opening balance of equity at 1 January 2018 was recognized. Upon adoption of HKFRS 15, the Group recognized revenue-related contract assets for the satisfied performance obligation which were previously recognized as "Amount due from customers for contract work" while the revenue-related contract liabilities for the unsatisfied performance obligation which were previously recognized as "Deposit from customers" under "Trade and other payables" and "Amount due to customers for contract work".

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

1. Technical Professional services group ("TPG") – development, provision of solutions, IT outsourcing services for banks and other financial institutions, telecommunication carriers and other large-scale multinational companies, including sale of products.
2. Internet IT services group ("IIG") – development, provision of solutions and IT outsourcing services for government, tobacco industry and other small- scaled companies and training business, including sale of products.

Information regarding the above segments is reported as below.

Segment revenues and results

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

	For the six months ended 30 June			
	Segment revenue		Segment results	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Technical professional services business (TPG)	4,029,252	3,511,450	424,265	368,493
Internet IT services business (IIG)	784,601	633,610	84,574	48,690
	<u>4,813,853</u>	<u>4,145,060</u>	<u>508,839</u>	<u>417,183</u>

During the six months ended 30 June 2018, the segment revenue is reported after eliminating inter-segment services revenue of RMB248,651,000 (2017: RMB72,252,000).

Reconciliation of segment results to profit before taxation:

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Segment results	508,839	417,183
Other income, gains and losses	4,468	800
Corporate expenses	(67,339)	(68,121)
Share option expenses	(25,816)	(71,537)
Effective interest on convertible loan notes	(31,729)	(10,224)
Profit before taxation	<u>388,423</u>	<u>268,101</u>

Segment revenue by products and services:

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Sale of software and hardware products	43,586	97,812
Technical professional services business (TPG)	4,011,444	3,460,084
Internet IT services business (IIG)	758,823	587,164
	<u>4,770,267</u>	<u>4,047,248</u>
	<u>4,813,853</u>	<u>4,145,060</u>

Segment revenue by emerging business and traditional business:

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Emerging business	741,655	380,507
Traditional business	4,072,198	3,764,553
	<u>4,813,853</u>	<u>4,145,060</u>

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.

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

4. FINANCE COSTS

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Interest on borrowings wholly repayable within five years	27,561	32,840
Effective interest on convertible loan notes	31,729	10,224
	<u>59,290</u>	<u>43,064</u>

5. TAXATION

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax	32,568	26,925
The US Federal and State Income taxes	50	731
	<u>32,618</u>	<u>27,656</u>

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

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

6. DIVIDEND

During the six months ended 30 June 2018, a final dividend of HK\$0.018 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2017 (2016: HK\$0.012) was declared to the owners of the Company. The aggregate amount of the final dividend declared during the six months ended 30 June 2018 amounted to HK\$43,735,908 (2017: HK\$28,827,293).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Earnings for the purposes of calculating basic earnings per share	358,759	245,470
Effect of dilutive potential profit attributable to owners of the Company:		
Interest on convertible loan notes	31,729	10,224
Earnings for the purpose of diluted earnings per share	390,488	255,694

	Number of shares	
	2018	2017
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,412,721,285	2,391,613,132
Effect of dilutive potential ordinary shares:		
Share options	101,948,279	12,686,027
Convertible loan notes	274,225,631	103,992,921
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,788,895,195	2,508,292,080

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

The computation of diluted earnings per share for the period ended 30 June 2017 did not assume the exercise of the Company's share options granted on 11 October 2016 and 17 November 2016 since the exercise prices of these share options were higher than the average market price of shares of the Company.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Trade receivables	2,366,839	1,688,023
Less: Allowance for doubtful debts	(208,235)	(208,090)
	<u>2,158,604</u>	<u>1,479,933</u>
Advances to suppliers	143,941	124,606
Deposits, prepayments and other receivables	476,559	385,701
	<u>2,779,104</u>	<u>1,990,240</u>
Analysed for reporting purposes as:		
Non-current assets	30,000	30,000
Current assets	2,749,104	1,960,240
	<u>2,779,104</u>	<u>1,990,240</u>

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

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Within 90 days	1,663,231	1,129,652
Between 91-180 days	269,260	155,783
Between 181-365 days	197,303	187,322
Between 1-2 years	28,810	7,176
	<u>2,158,604</u>	<u>1,479,933</u>

The fair value of the Group's trade and other receivables at 30 June 2018 was approximately equal to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Trade payables	487,960	772,647
Deposits received from customers	–	18,978
Other payables and accrued charges	662,711	792,670
	<u>1,150,671</u>	<u>1,584,295</u>

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

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Within 90 days	320,476	589,161
Between 91-180 days	24,007	27,205
Between 181-365 days	84,108	104,253
Between 1-2 years	32,302	34,268
Over 2 years	27,067	17,760
	<u>487,960</u>	<u>772,647</u>

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

The fair value of the Group's trade and other payables at 30 June 2018 was approximately equal to the corresponding carrying amount.

10. BORROWINGS

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Unsecured bank loans (Note (i))	949,950	685,750
	<u>949,950</u>	<u>685,750</u>
	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Carrying amount repayable:		
Within one year	949,950	685,750
More than one year, but not exceeding five years	—	—
	<u>949,950</u>	<u>685,750</u>
Less: Amounts due within one year shown under current liabilities	(949,950)	(685,750)
	<u>—</u>	<u>—</u>
Amounts shown under non-current liabilities	—	—

10. BORROWINGS (CONTINUED)

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Total borrowings		
At floating interest rates <i>(Note (iii))</i>	414,950	40,000
At fixed interest rates <i>(Note (iii))</i>	535,000	645,750
	949,950	685,750
	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	949,950	685,750

Notes:

- (i) Guaranteed by the Company and certain subsidiaries of the Company.
- (ii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the first half year of 2018 is 4.71% (2017: 4.58%) per annum.
- (iii) Interests on fixed rates borrowings are charged at interest rates ranged from 4.35% to 5.00% (2017: 4.35% to 4.79%)

11. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

		Number of shares	Nominal amount HK\$
Authorised			
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018		4,000,000,000	200,000,000
	Number of shares	Nominal amount HK\$	Amount shown in the financial statements RMB'000
Issued and fully paid			
At 31 December 2016 and 1 January 2017	2,314,174,436	115,708,722	106,387
Exercise of options	88,100,000	4,405,000	3,896
At 30 June 2017	2,402,274,436	120,113,722	110,283
At 31 December 2017 and 1 January 2018	2,402,274,436	120,113,722	110,283
Exercise of options	1,500,000	75,000	61
Conversion of convertible loan notes	25,998,230	1,299,912	1,050
At 30 June 2018	2,429,772,666	121,488,634	111,394

12. CAPITAL COMMITMENTS

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	–	845
– investment in an entity accounted for using equity method	113,100	113,100
	113,100	113,945

13. RELATED PARTY TRANSACTIONS

During the relevant periods in 2017 and 2018, the Group had the following transactions with the following related parties:

	<i>Note</i>	For the six month ended 30 June	
		2018 RMB'000	2017 RMB'000
Provision of IT outsourcing services			
– Beijing Chinasoft International Education Technology Co., Ltd ('Beijing Chinasoft EDU')	(a)	1,707	–
Provision of IT solution services			
– Beijing Chinasoft EDU	(a)	22	–

Note:

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

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

14. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB3,379,551,000, including the directors' emoluments of approximately RMB8,686,000 during the six months ended 30 June 2018 (2017: approximately RMB2,987,106,000, including the directors' emoluments of approximately RMB5,487,000). The increase in employee remuneration resulted from the increase in the number of employees from 50,356 to 54,663.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2018 of the Group amounted to approximately RMB36,641,000 (2017: RMB41,759,000) and approximately RMB57,185,000 (2017: RMB43,698,000), respectively.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2018, 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 30 June 2018, except for the following deviations as explained:

- (i) The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1 of the CG Code). Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.
- (ii) 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 chairman and member of the nomination committee of the Company, resulted in the vacancy of the chairman of the nomination committee (deviated from code provision A.5.1 of the CG Code). As Dr. Lai Guanrong was subsequently appointed as the chairman of the nomination committee of the Company on 15 August 2018 in order to replace the vacancy, such deviation from the code provision A.5.1 of the CG Code was rectified.
- (iii) Independent non-executive Directors and other non-executive Directors, as equal Board members should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors and non-executive Directors of the Company were unable to attend the 2017 AGM due to their respective business engagement. Other Board members who attended the 2017 AGM were available to answer questions to ensure effective communication with the shareholders (deviated from code provision A.6.7 of the CG Code).

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings in securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 30 June 2018.

DIRECTORS' INTERESTS IN SHARES

As 30 June 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 of listed issuers.

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

Name	Capacity	Number of issued ordinary shares held	Number of underlying shares held under equity derivatives	Total number of shares	Total approximate % of the issued share capital as at 30 June 2018
Chen Yuhong	Beneficial owner, through controlled corporation, founder of discretionary trust and beneficiary of trust	264,692,861	–	444,692,861	18.30%
	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	–	180,000,000 (Note 1)		
Tang Zhenming	Beneficial owner and beneficiary of trust	11,827,765	–	11,827,765	0.49%
Zhang Yaqin	Beneficial owner	1,500,000	1,500,000 (Note 2)	3,000,000	0.12%

Notes:

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

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 1 January 2018	No. of share options exercised during the period	No. of share options outstanding as at 30 June 2018	Percentage of total issued ordinary share capital of the Company as at 30 June 2018	No of underlying ordinary shares interested in	Percentage of total issued ordinary share capital of the Company as at 30 June 2018	Note
Zhang Yaqin	3.27	3,000,000	(1,500,000)	1,500,000	0.06%	1,500,000	0.06%	(1)

Note:

- (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

Save as disclosed above and so far as was known to the Directors, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests or shorts in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provision of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code, to be Company and the Stock Exchange.

SHARE OPTION SCHEME

As at 30 June 2018, pursuant to the New Share Option Scheme approved by the shareholders at the AGM held on 20 May 2013, the share options to subscribe for an aggregate of 271,500,000 Shares granted to certain Directors, employees and suppliers of the Group were outstanding representing 11.17% of the total issued ordinary share capital of the Company as at 30 June 2018.

During the six months ended 30 June 2018, an aggregate of 1,500,000 share options were exercised, no share options were granted under the New Share Option Scheme and lapsed.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June 2018 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2018 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2018, the Company had adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules relating to dealings in securities. Having made specific enquiry with all the Directors, the Directors had complied with the Model Code regarding securities transactions during the six months ended 30 June 2018.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2018, the following persons (not being a Director or chief executive of the Company) had interests or short position in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Dan Capital Tangkula Limited Partnership (Note 1)	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	444,692,861	18.30%	16.55%
Dan Capital Kunlun Limited Partnership (Note 1)	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	444,692,861	18.30%	16.55%
Prime Partners Development Limited (Note 2)	Beneficial interest	139,072,725	5.72%	5.17%
Milestones Asset Management Limited (Note 3)	Interest of controlled corporations	134,630,690	5.54%	5.01%
CSI Profit Share Scheme SPC – Phase One SP (Note 3)	Beneficial interest	134,630,690	5.54%	5.01%
OP Investment Management Limited (Note 3)	Investment manager	134,630,690	5.54%	5.01%
UBS Group AG (Note 4)	Person having a security interest in shares	22,325,000	0.92%	0.83%
	Interest of controlled corporations	148,267,856	6.10%	5.52%
UBS AG (Note 4)	Beneficial interest	669,856	0.03%	0.02%
UBS Asset Management (Hong Kong) Ltd (Note 4)	Beneficial interest	36,756,000	1.51%	1.37%
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	110,680,000	4.56%	4.12%
UBS Fund Management (Switzerland) AG (Note 4)	Beneficial interest	72,000	0.00%	0.00%

* The total number of issued share consists of 2,429,772,666 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 139,072,725 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. and UBS Fund Management (Switzerland) AG are the wholly-owned subsidiaries of UBS Group AG. Accordingly, UBS Group AG is deemed to be interested in the long positions of 148,267,856 shares in the Company held by these companies as disclosed above.

Save as disclosed above, as at 30 June 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.

COMPETING INTERESTS

As at 30 June 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.

AUDIT COMMITTEE

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

During the 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 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 for the period ended 30 June 2018.

Following the appointment of Professor Mo Lai Lan as an independent non-executive Director and the chairman and a member of the audit committee, a member of the nomination committee and remuneration committee of the Company with effect from 15 August 2018, the Board has then fulfilled the requirements under the Listing Rules. Further details can be referred to the announcement of the Company dated 15 August 2018.

The Audit Committee has reviewed the Group's interim result for the six months ended 30 June 2018 and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that the interim result for the six months ended 30 June 2018 have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim report.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float for the six months ended 30 June 2018.

On behalf of the Board
Dr. Chen Yuhong
Chairman and Chief Executive Officer

21 August 2018, Hong Kong