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Corporate Information

THE BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Zhang Yaqin
Mr. Samuel Thomas Goodner

Independent non-executive Directors

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Leong Leung Chai Florence

AUTHORISED REPRESENTATIVES

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China Merchants Bank
The Bank of East Asia Limited

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Dear Investors:

In 2016, Chinasoft recorded its 13th consecutive year of revenue increase since listing, and has over 47,000 employees. The Group achieved revenue of RMB6.78 billion, and service revenue of RMB6.57 billion, 100 times more than when the Group was listed in 2003. Chinasoft continues to rise in rankings in China's ITS industry and has been regarded as one of the leaders in this industry.

I. HELPING OUR LARGE CUSTOMERS TRANSFORM

We have gained a lot through our competition with our peers in the Indian ITS industry, and were able to fully participate in helping our biggest global banking clients to realize its digital transformation. This shows that our large customers in key industries globally have moved from the concept of digital transformation to actual implementation. In this round of construction, China's software service companies, including ourselves, have gained first-mover advantages. Whether it's our service implementation for Tencent's WeBank, or financial big data implementation with Huawei, the Group's experience and practices in DevOps and Agile development have become the basis for oversea clients to choose us. Software services are experienced services, and currently our big customers are experiencing changes in the development stage. These changes will become our opportunities to "overtake" our peers. We can see how evident these changes are just by looking at the changes in Microsoft's office decorations and layout. Before, Microsoft's signature office view was to have one software engineer in his/her own cubicle. Now, Microsoft has completed its cloud transformation to become the world's second biggest public cloud service provider, and its office now resembles more of a startup. Catapult, our subsidiary in America that was named Microsoft's Partner of the Year in 2016, not only witnessed this transformation, but also as a pioneer in digitalization, aided in this transformation. Catapult designed and developed Digital Workforce Suite based on Azure, and we are looking forward to see their first success in this field in the US market. As the first company to pass Huawei's certification to become its cloud service partner, the Group has witnessed firsthand how aggressive Huawei, known for its execution, is when they march head on into cloud computing. New disruptions are happening and industry landscapes will be changed. These changes are truly exciting!

II. BEGINNING OF SOFTWARE SERVICE INDUSTRY'S UPGRADING TRANSFORMATION

Our "dual-wheel" growth strategy is a foresight of ours for the future development of the software service industry. We believe that there will be a wave of software and consumer services when customers are fully connected with the providers, and when everyone has access to a powerful "computer" within their palms. The to C (consumer application) market will reverse overtake the to B (business application) market, and the software and ITS will no longer be on a pedestal. We see how powerful, clean, and intuitive these "no downloads required, easy to share" WeChat small programs are. Most importantly, the investment required for development is very small, and there is no room to "over-sale" with the software developments! We see that there is an industry consensus that the software and ITS industries are in urgent need of transformation. Jointforce was able to initially and continuously provide answers for this upgrading transformation. This is the most heartfelt reward in year zero of the Jointforce development.

New "Man + Machine" enabled software services are on the rise. Our "Application Development: Done on Jointforce through Huawei Cloud", which revealed our joint improvements with Huawei in its software development cloud, is not only a market slogan, but also a mutual understanding between Huawei and us for the nature of the industry. Our goal is to become a strategic partner that "shares the same boat", as we further bundle both parties' functions and services. Jointforce will co-construct a new ecosystem for ITS industry though "cloud-based software industry park" and "cloud based IT center".

III. MOVING TOWARDS ACTIVE OFFENSE AND "STARTING AGAIN".

Active offense means the Group's lines of business will face a full on sales-driven transformation. More specifically, that there will be a transition towards younger management and first-line managers (decreasing the average age by 10 years). We will reward accomplishments, promote "warriors" (talents), continue to hire new personnel, and embrace these "new bloods". We will leverage the global market, lead technological revolutions, establish industry ecosystem, and become a top global ITS enterprise. This is our vision of active offense, and starting again.

In the domestic market, the state continued to increase the supply for structure reform efforts to accelerate the integration of manufacturing and Internet development, promoting a comprehensive industry upgrade. China Manufacturing 2025, Internet +, big data and etc. has became the state's strategy. New smart city will become the trend for city developments. These brought unprecedented opportunities for the domestic IT industry and allows Chinese IT enterprises to grow rapidly and exemplify a sense of maturity, coming from "foundation strengths" and "internal strengths", to compete in the global market.

There is huge demand for global ITS industry cloud services, big data, and more. The state's "the Belt and Road" strategy will be largely deployed, and all these will become huge business opportunities for Chinese IT enterprises to globalize under this "digital China" integrative solution.

The Group will continue to consolidate its core businesses, providing custom services for our core clients, and enroot in software service center cities including Xi'an, Shenzhen, Nanjing, Chengdu, Wuhan, Beijing, Shanghai, and Guangzhou. The Group will continue to develop new innovative services as we grow, and as the leading enterprise, we will demonstrate and contribute to the development of China's IT industry. The Group sees the global market as a motivating source, and will leverage that along with our innovative advantages to compete with Indian IT companies. The Group will increase its pace for global layout, and plan to establish new centers an India, Middle East, North Africa, and Russia, while improving existing centers in America, Hungary, and Malaysia. Lastly, the Group will leverage cloud-based digital transformation services to complete its global layout, service global clients, and establish Chinese influence in the global IT industry.

The smart application of data allows enterprises to obtain a clear competitive advantage. Whether it is domestic or global, enterprises are all "hugging" big data, exploring and establishing their competitiveness. In 2016, the Group established an advantageous and unique industry crossover big data servicing capability, and achieved key breakthroughs in finance, transportation, and energy industry, and laid a strong foundation to expand its big data business into different industries. Because of our leading capabilities in big data, we were rewarded as one of the China's Top 100 Big Data Companies in 2016. In the future, the Group's big data business will continue to contribute in the areas of government, banks, insurance, securities, financial regulators, transportation, logistics, energy, manufacturing, and media. Big data businesses will become a strong engine for promoting the Group's future development and strategy transformation.

As the Group's "Starting Again" campaign develops, a new round of growth for the Group has opened. "Walk the world, build Jointforce", we will be on the offense. The Group's future is worth the anticipation!

Chairman
Chen Yuhong

Business Overview

I) NEW DEVELOPMENT HIGHLIGHTS:

- The Jointforce platform entered into a "mission" strategic cooperation with the Huawei Software Development Cloud and initiated a cloud-based revolution. The Group will build a brand new software customization development ecosystem.
- The Group's strategic relationship with Huawei strengthened as it established a new joint innovative big data laboratory in Xi'an and will work hand in hand with Huawei Software Development Cloud and build a new customizable development ecosystem.
- The Group entered into a strategic cooperation with Tencent to become Tencent Cloud's highest ranked channel partner.
- Catapult Systems was on the cover of "CIO Review", and rewarded as the "The Company with the Most Potential as Microsoft's Service Provider" in 2016.
- The Group was inaugurated as the first class of the "Level One Enterprise in IT System Integration and Services in China".

II) COMPANY STRATEGY

1. Globalization: Leverage the "the Belt and Road" and Establish Chinese Influence In the Global IT Community

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

The Group, in long term, provides IT services, Microsoft, Huawei, HSBC and other Fortune 500 companies in 32 different countries and have accumulate customer experiences for a large amount of global clients. The Group will leverage the digital "the Belt and Road", combining Huawei's product and industry experience and speed up the Group's global expansion plans. The Group will establish global centers in Russia, India, Middle East and North Africa, and improve its centers in America, Hungary, and Malaysia. The Group will become a global IT company and establish a Chinese It presence in the global IT community through its digital transformational services.

2. **Jointforce: Consolidate the Best Ecosystem Resources and Enter into Regional Markets**

The Jointforce platform has been commercialized for a year and a half. Its brand recognition and influences increased significantly and businesses increased. As of the end of 2016, there are over 1,000 teams, close to 3,000 companies, and over 130,000 engineers available on the platform. There are close to 20,000 contracting companies posting over RMB600 million worth of contracts on the platform, fully verifying the IT Model 2 (transformational and innovative IT development). The initial industry ecosystem has been established.

Currently, Jointforce is in over 387 cities. Jointforce successfully launched "famous city" events in Xi'an, Guangzhou, and Nanjing, and established regional platform organizations in key software cities including Beijing, Shanghai, Xi'an, Dalian, Chengdu, Wuhan, Guangzhou and Shenzhen. In the future, Jointforce will fully participate in regional smart city construction projects. The company is resolved to work with Huawei as strategic partners and leverage its core capabilities and ecosystem to devote to cloud migration and integration, big data city operation (new smart city), software cloud based on cloud, smart manufacturing cloud, education cloud and other core businesses and unique competitive advantages. The Group will strengthen the cooperation between ResourceOne and PaaS layer products, and though Jointforce to provide more application and operation management services. The goal is to "share the same boat" with Huawei and continue to improve end customers' satisfactions.

3. **Big Data: Core Competitiveness through Industry Barriers, Breakthrough in Data Value**

The IDC predicts that the big data and analytic market will grow from USD130 billion to USD203 billion from 2016 to 2020. The Group's increased available data, the emergence and development of next-generation technologies, and the cultural transformation of data-driven decision-making have continued to stimulate market demand for big data and analytic services. In 2016, the Group quickly established unique cross-industry big data services advantages, including establishing a high quality big data service team covering consulting, implementation, development, quality and professional pragmatism, an advanced independent software platform and cross-industry consulting and implementation methodology, end-to-end solutions, technical service capabilities to help customers plan and design rational and scientific big data structures, methodical integration of data sharing, precision marketing and micro management, and operational risk control capabilities improvements. In the past year, the Group's big data business maintained its leading positions in the financial sector and built on its existing foundations. In the insurance and regulatory market, the Group improved its market regulation standardization and precision. The Group big data platform achieved breakthrough in the core institutions of China's capital market with its big data application, Huawei's IT services in data communication, energy industry, transportation industry, media industry, and etc. Lastly, the Group was successfully selected as the Top 100 Big Data Companies in 2016.

In the future, the Group's data business will continue to contribute in the areas of financial regulators, government and high-tech parks, industry authorities, banks, insurance, securities, transportation, logistics, energy, manufacturing, public security, medical and health care, and media. The Group will leverage its knowledge in multiple industries, effective business lines, and technology training system to provide a comprehensive big data services and decision support. Big data will become the Group's new growth engine.

Business Overview

III) BUSINESS LANDSCAPE

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

i. Technology professional services group (TPG）

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

ii. **Internet IT services group（IIG）**

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

1. **Segment Descriptions**

i. ***Introduction of TPG business***

TPG is the first “wheel” of our bi-model structure that services large customers and large industries that require the Group’s experienced project management skill sets, human resource capabilities, and control of certain specific resources. The Huawei and financial lines of business are TPG’s leading lines of business.

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

- **Software Platform Products**

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

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

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

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

- **Vertical and Cross-Industry Application Software and Solution Development**

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

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

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

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

- In the operation and maintenance phase, the Group's platforms, application software and solutions have been adopted by a number of strategic industries nationwide; the Group has simultaneously completed the layout with specialized operation and maintenance teams in all key areas of China.

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

- **System Integration and Services**

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

- **Product Engineering**

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

- **Application Development and Maintenance**

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

- **Enterprise Application Services**

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

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

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

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

- **Mobile Internet product and service**

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

- **Big Data Products and Services**

  The Group provides big data related consulting, implementation and development services, and the Group is committed to provide government and enterprises with data strategy consulting, data platform, data management and data analysis services. The Group is focused on the development of government and enterprises' data and technology solutions for China's national conditions, and with its plentiful experience in industry-level and enterprise-level project construction, the Group is able to help customers plan and design scientific and reasonable big data overall structure, achieve data integration and sharing open, so as to enhance the level of fine management, strengthen capability of operational risk control, help the government to innovate the government administration methods, help industry enterprises and financial institutions to achieve business transformation and upgrading.

ii. Introduction of IIG business

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

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

- **JointForce**

  The JF platform was created to relieve the difficulties facing the industry. Recent technology innovation in SMAC played a pivotal role enabling the platform to exist and operate as intended. Through JF we can offer the industry an alternative to the more traditional IT service delivery model and in the process created a sort of a clearing house for IT services at a price that is agreeable to both the buyer and seller of this service. Like AirBnB, we are tapping into the share-economy/crowd sourcing concept for our industry.

- **Cloud migration and operation and maintenance services**

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

- **Cloud consulting and SaaS customization services**

  The era of cloud computing has arrived for those that want to simplify IT, push innovation, increase returns on IT investments, and increase efficiency in operations. The Group entered into a strategic agreement with Ali-Cloud, the leading Chinese cloud computing company, to provide cloud consulting and customized services. Innovation is treated as a standard today, including rich social experience, mobile payment, friendly user interface, structured and unstructured instant search data and regularly and upgrade without interference, The Group's SaaS solution project combine user needs by innovation technology. These innovation functions are able to disrupt the client's core business and enhance its core system performance. Furthermore, the Group already signed strategic cooperation with Alibaba Group to participate in its "Digital Internet City" project. The Group will work on the PaaS level.

- **PaaS (Software interface in the Cloud products) and services**

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

- **ETC Training business**

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

2. **Industry Verticals**

The Group has strong presence in the following industry verticals:

i. ***Government and Enterprises***

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

ii. ***Manufacturing and Circulation (Tobacco)***

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

iii. Financial Services and Banking

Thanks to professional services and TopLink, the payment platform product with proprietary intellectual properties, the Group provides personalized financial services, with secured payment as its core, to its customers in financial and banking sector. The Group has a long history in providing industry solutions, system integration services and related high-end services for its key customers including five major state-owned banks, postal savings banks, a number of joint-stock commercial banks and city commercial banks, as well as foreign-invested financial institutions in China. The Group accumulated extensive experience in industry application and achieved "Three Firsts" in China – the first inter-bank bankcard payment network system, the first financial IC card payment and clearing system and the first e-commerce online payment and settlement system. In particular, the "electronic funds transfer and retail banking application system" was recognized as one of the outstanding projects of the fifteenth National Torch Program. In 2016, the Group became the only global service provider in China. According to IDC market research, the Group was ranked among the top five for many years in the payment and clearing solutions market of the banking industry, and was ranked the first in bankcard system markets in 2010. High level of customer recognition has been achieved regarding its capabilities in business advisory and solutions segments of Internet Finance.

iv. Insurance and Securities

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

v. Telecommunications and Internet

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

The Group has been providing long-term services for well-known Internet IT companies. The Group strengthened customer cooperation and established capability centers, improving service efficiencies. Leveraging on the accumulation of Internet industry experiences, the Group achieved breakthroughs in multiple large customers in the Internet industry. The Group consolidated its industry solutions and provided customers with "end-to-end" services, further maintaining its leading industry position. The key customers in the Internet industry include Tencent, Sina, Baidu, and etc. Lastly, the Group signed a strategic cooperation with Tencent Cloud to become its highest ranked channel partner.

vi. ***Public Services (Transportation)***

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

vii. ***Electricity Distribution and Energy***

Through years of experience in corporate control, ERP, supply chain management, management services, etc., the Group targets at strengthening the macro-management of enterprises engaging in the provision of electricity and oil in the energy industry, enhancing the overall requirement on corporate control, which allows it to partially enter into the core business system and management information system in the energy industry.

Leveraging on its "end-to-end" service capability and continuously making use of the overall requirement for the industry in the macro economy, the Group laid a solid foundation for the systematization of its customers in the energy industry with the support of a professional team and an excellent operation system. Its clients confirm its capability in electricity sales, operational inspection in terms of material, and its market position is stabilized.

viii. ***High-Technology Business***

The Group's high-technology business has clients located in America, Europe, Japan and Greater China, to whom the Group provides comprehensive and tailor-made services. Standardized delivery of services was achieved through delivery centers set up around the world. According to IDC's market research reports, the Group was ranked the top 3 in China's overall offshore outsourcing market, ranked the top 2 in the European and American market. For the 7th consecutive year, the Group was named as "Global Outsourcing 100" by IAOP (International Association of Outsourcing Professionals). The Group's major customers include Microsoft, GE, etc.

The Group is Microsoft's first Global Premier Vender in the PRC, Microsoft's most valuable global vendor, and a preferred supplier of Microsoft's MCS (Microsoft Consulting Services) in the PRC. It has also obtained the certification COPC (Customer Operations Performance Center). Meanwhile, the Group's Catapult unit is one of only 32 Microsoft National Solutions Providers, and has expertise across the entire Microsoft stack. In 2015, Catapult Systems held 11 gold Microsoft competencies and 2 silver competencies, and was recognized for various awards including 20 Most Promising Azure Solution Providers. Catapult is an outstanding consulting service provider specializing on Microsoft business, resulting in closer strategic cooperation between the Group and Microsoft, as well as enhancement of the Group's capabilities in cloud computing and serving Microsoft's customers globally.

IV) BUSINESS DEVELOPMENT HISTORY

In February 2000, Chinasoft International was incorporated with headquarter in Beijing. The Group's main businesses were to provide government customers with system integrations and customized software development solutions. In the same year, the Group introduced its proprietary application support platform Resource-One V1.0.

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

In 2003, the Group was listed on the Growth Enterprise Market (GEM) board of the Hong Kong Stock Exchange. Supported by the capital platform, the Group adopted a new development model of organic growth + growth via mergers and acquisitions. This led to rapid growth in both financial performance and scale. The vertical industries that the Group served expanded from government to state-guided large-scale manufacturers, and the Group gradually underwent a transformation from a traditional distributor and integrator of hardware and software to a solutions provider. Furthermore, it adhered to independent research and development, upgraded Resource-One to V3.0 based on the SOA architecture, and successfully promoted it to different verticals and industries.

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

In 2005, the Group kept up with the changing landscape of the time by entering into the IT outsourcing (ITO) market through successfully merging and integrating with Chinasoft Resources Information Technology Services Limited. It then established strategic partnerships with top international enterprises such as Microsoft, and set up operation in the United States. Later that year, the Group acquired Powerise International and expanded its ITO business to Japan. Leveraging on the flourishing ITO business, the Group successfully expanded from China's domestic market into a broader oversea market.

In 2007, the Group acquired and integrated Hinge Global Resources, and extended its services into financial and transportation industries. In addition, the Group added specialized BPO services. Leveraging its comprehensive capabilities and industry position, the Group became a top SOA partner for International Business Machines Corporation (IBM). Together they built the Group's SOA Innovation Center. In addition, the Group's Excellence Training Centers (ETCs) set up practical training bases in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Tianjin, and Nanjing; each with an area of 1,000–5,000 square meters, with total annual training capacity of over 10,000 people.

In 2008, The Group successfully up-listed from the GEM Board to the Main Board of the Hong Kong Stock Exchange (Ticket: HKSE.354). In 2010, the group acquired Han Consulting, which significantly strengthened the Group's front-end consulting capabilities. The Group has completed its end-to-end capabilities which included IT consulting, technology services, outsourcing services, and training services. In the same year, the Group entered into the telecom and mobile Internet industries through acquisition of MMIM Technologies, Inc.

In 2011, the Group introduced Hony Capital as a strategic investor and formed a strategic partnership. The Group will carry out integration in the information service business as an enterprise that is used as a platform. In the same year, the Group formed a brand new campus (will fit over 10,000 employees) located at the New Software City in Xi'an High-Tech Zone.

2012 was a momentous year for the Group as it partnered with Huawei and launched the joint venture (JV). The Group soon entered into an operational stage with a stable growth trend in performance. The Group became the top vender for Huawei and synergies emerged in the JV early on. In the same year the Group also entered into the electricity industry through the acquisition of a supplier for the State Grid Electric Power.

In 2013, Catapult, a US service provider specialized in consultancy services on Microsoft products and technologies, was acquired to enhance the Group's cloud integration and high-end servicing capabilities in the new technology IT services such as Cloud computing, mobile and social media. This has laid a solid foundation for the development of global market through the strengthened strategic cooperation with Microsoft. The Group achieved a closer cooperation with Ali-Cloud and became a chief promoter of Yunqi Cloud Alliance, the country's first alliance in cloud computing organized by Ali-cloud. The Group worked closely with Ali-Cloud in the promotion of the development of cloud related industry, and together signed an agreement with Zhejiang Province government administration to build a demonstration pilot project of smart cloud, achieving the implementation of homegrown electronic administration cloud solution.

Business Overview

In 2014, the Group's business with Huawei grew strongly. The JV with Huawei provided experience that improved the Group's delivery (global and local) capabilities, service types, and laid out foundations in different industries at its two year anniversary mark. Furthermore, the Group entered into a strategic cooperation with Huawei to become its enterprise business line's gold level agent, completing the first phase of the Group's plan, which is to gain mutual trusts from both partners. The Group now enters into phase two, which is to leverage Huawei and grow. The Group invested in a top SaaS company that is focusing on CaaS through a Silicon Valley startup fund. The Group also strengthened its strategic cooperation with Huawei and Ali-Cloud. The Group also became the only full suite capable cloud service provider in the Ali-Cloud ecosystem, gaining recognition from customers for the Lishui and Guizhou projects. The Group won bids for China Mobile Fetion, unified communication, and 139 mailbox and became the core provider for many of China Mobile's business lines.

2015 was a turning point for the Group's business. As the world entered the "digitalization era", the Group began to re-organize its business according to on-line and off-line IT services. Joint Force, the Group's trusted ITS crowd sourcing platform was first launched late 2014 but officially launched to the enterprise market in mid-year 2015. This the Group's new model for on-line ITS services, with the new group called IIG (Internet ITS Group). Traditional IT services continues to be served by our TPG (Technology Professional Group). Catapult Systems, our US subsidiary, started to market and sell Solution as a Service and began its transformation to the cloud and digital world in earnest.

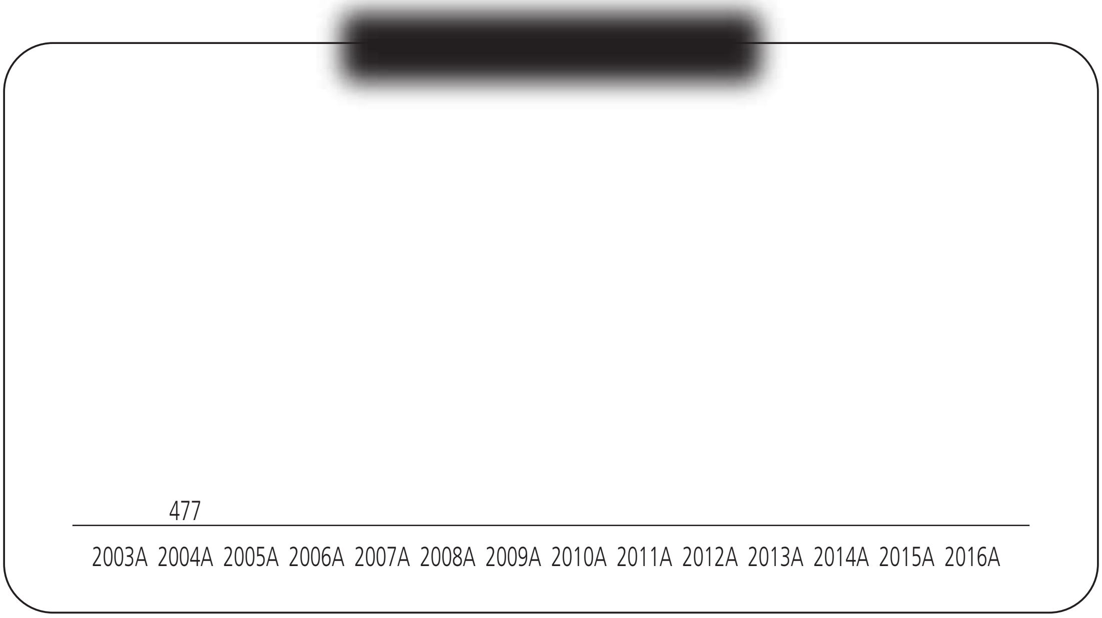
2016 was an important year for the Group as it began its strategic transformation and moves toward in becoming a global IT enterprise. The Group was selected by HSBC as the only strategic partner designated in China and implemented full coverage service for HSBC. At the same time, the Group has fully established large data capabilities, formed a big data service team covering consulting, implementation and development, and precipitated advanced methodology of the independent software platform and cross-industry consulting and implementation. Group is rated No.18 of top 100 software companies in China, 20160 Tf(o)Tj0.6 0f6Td( )Tj Td(d)Tj0.613 0 Td(i)Tj0.229 0 a

HUMAN RESOURCES

As of the end of 2016, the Group has a total of 47,188 employees, representing a YoY increase of 49.8% (2015: 31,504). During the reporting period, the annual average employee size was 39,346, representing a YoY increase of 37.2% (2015: 28,680), which is in line with the Group's service revenue increase of 36.1%.

As of the end of 2016, the Group employs 45,188 technical staffs, accounting for 95.8% of the total employees. Of which, 17,918 technical staffs are project managers and consultants (core talents), accounting for 39.7% of the total technical staffs.

The Group's business continues to boom. The rapid growth in employment size since listing on the Growth Enterprise Market in 2003 is as follows:



OPERATING RESULTS

The Group's consolidated income statements in 2015 and 2016 are as follow:

	2016 RMB'000	Percentage of turnover	Percentage of service revenue	2015 RMB'000	Percentage of turnover	Percentage of service revenue
Revenue	6,783,367			5,129,111		
Service Revenue	6,573,770			4,831,722		
Cost of sales and services	(4,767,529)	(70.3%)	(72.5%)	(3,605,903)	(70.3%)	(74.6%)
Gross profit	2,015,838	29.7%	30.7%	1,523,208	29.7%	31.5%
Other income	41,908	0.6%	0.6%	46,259	0.9%	1.0%
Other gains or losses	1,807	0.03%	0.03%	(17,625)	(0.3%)	(0.4%)
Selling and distribution costs	(219,022)	(3.2%)	(3.3%)	(178,581)	(3.5%)	(3.7%)
Administrative expenses	(806,614)	(11.9%)	(12.3%)	(627,264)	(12.2%)	(13.0%)
Research and development costs	(345,269)	(5.1%)	(5.3%)	(195,318)	(3.8%)	(4.0%)
Allowance for doubtful debts	(17,958)	(0.3%)	(0.3%)	(62,055)	(1.2%)	(1.3%)
Other expenses	(88,012)	(1.3%)	(1.3%)	(91,961)	(1.8%)	(1.9%)
Finance costs	(95,735)	(1.4%)	(1.5%)	(92,509)	(1.8%)	(1.9%)
Share of results of investments accounted for using the equity method	17,492	0.3%	0.3%	1,907	0.04%	0.04%
Gain on disposal of subsidiaries	–	–	–	111,724	2.2%	2.3%
Fair value change on derivative financial instruments	–	–	–	(1,074)	(0.02%)	(0.02%)
Gain arising from changes in fair value of contingent consideration payable an acquisition of a subsidiary	20,152	0.3%	0.3%	3,283	0.1%	0.1%
Profit before taxation	524,587	7.7%	8.0%	419,994	8.2%	8.7%
Income tax expense	(114,754)	(1.7%)	(1.7%)	(87,010)	(1.7%)	(1.8%)
Profit for the year	409,833	6.0%	6.2%	332,984	6.5%	6.9%
Profit for the year attributable to owners of the Company	442,081	6.5%	6.7%	280,056	5.5%	5.8%

REVENUE

In 2016, the Group's revenue was RMB6,783.367 million (2015: RMB5,129.111 million), representing a YoY growth of 32.3%. The Group's service revenue was RMB6,573.770 million (2015: RMB4,831.722 million), representing a YoY growth of 36.1%. The growth mainly came from increasing business volume from existing large customers.

In 2016, TPG and IIG accounted for 80.8% (2015: 73.7%) and 19.2% (2015: 26.3%) of the Group's total revenue.

	2016 RMB'000	Weight	2015 RMB'000	Weight
TPG	5,481,921	80.8%	3,780,692	73.7%
IIG	1,301,446	19.2%	1,348,419	26.3%
Total	6,783,367	100%	5,129,111	100%

In 2016, TPG and IIG accounted for 82.4% (2015: 74.1%) and 17.6% (2015: 25.9%) of the Group's service revenue.

	2016 RMB'000	Weight	2015 RMB'000	Weight
TPG	5,413,546	82.4%	3,578,708	74.1%
IIG	1,160,224	17.6%	1,253,014	25.9%
Total	6,573,770	100%	4,831,722	100%

COST OF SALES AND SERVICES

In 2016, the Group's cost of sales and services accounted for 70.3% (2015: 70.3%) of the revenue, the same as that of last year. The Group's cost of sales and services were RMB4,767.529 million (2015: 3,605.903 million), representing a YoY growth of 32.2%.

GROSS PROFIT

In 2016, the Group's gross profit was RMB2,015.838 million (2015: 1,523.208 million), representing a YoY growth of 32.3%. The Group's gross margin was 29.7%, the same as that of last year (2015: 29.7%).

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

1. Increase the Group's overall technological capabilities and value added IT services to have a stronger price bargaining power with clients;

2. Increase the proportion of oversea businesses and continue its global layout. The oversea businesses are higher margin business compared to that in China;

3. Increase cloud, big data, and other emerging services. The gross margins of these emerging services are on higher than that of the traditional IT outsourcing;

4. Increase the number of fixed priced contracts. Fixed price contracts are typically higher margin businesses than that of the outsourcing businesses;

5. Increase the number of IP solution businesses. Contracts with the Group's IP are quicker to scale and have higher gross margins.

OTHER INCOME

In 2016, the Group's other income was RMB41.908 million (2015: RMB46.259 million), representing a YoY decrease of 9.4%. The decrease was mainly due to the drop in the government subsidy during the reporting year.

OTHER GAINS OR LOSSES

In 2016, the Group's other gains were RMB1.807 million (2015: other losses were RMB17.625 million). This was mainly due to the exchange loss caused by the significant fluctuations in the exchange rate between USD and RMB for the syndicated loan. The Group paid back the syndicated loan in early 2016, so there are no significant losses due to foreign exchange during the current year.

OPERATING EXPENSES

In 2016, the Group's selling and distribution expenses were RMB219.022 million, representing a YoY increase of 22.6% (2015: RMB178.581 million). The Group's selling and distribution expenses accounted for 3.2% (2015: 3.5%) of the revenue, representing a YoY decrease of 0.3%. The Group's selling and distribution expenses accounted for 3.3% (2015: 3.7%) of the service revenue, representing a YoY decrease of 0.4%. The proportion of selling and distribution expenses to revenue and service revenue decreased because during the reporting period the proportion of TPG businesses, which is focused in large customers and industries, to IIG businesses increased.

In 2016, the Group's administrative expenses were RMB806.614 million (2015: RMB627.264 million), representing a YoY increase of 28.6%. The Group's administrative expenses accounted for 11.9% (2015: 12.2%) of the revenue, representing a YoY decrease of 0.3%. The Group's administrative expenses accounted for 12.3% (2015: 13.0%) of the service revenue, representing a YoY decrease of 0.7%. The decrease of the administrative expense represents the Group's improved administrative efficiency.

In 2016, the Group's research and development costs were RMB345.269 million (2015: RMB195.318 million), representing a YoY increase of 76.8%. The Group's research and development costs accounted for 5.1% (2015: 3.8%) of the revenue, representing a YoY increase 1.3%. The main cause of the increase is because the Group invested more into the research and development of cloud, big data, and other emerging servicing capabilities.

Finance Costs and Income Tax

In 2016, the Group's finance costs accounted for 1.4% (2015: 1.8%) of the revenue, representing a YoY decrease of 0.4%. The Group's finance costs were RMB95.735 million, representing a YoY increase of 3.5% (2015: RMB92.509 million).

In 2016, the Group's income tax was RMB114.754 million (2015: RMB87.010 million), representing a YoY increase of 31.9%. The reason for the increase of tax is because during the reporting period, the Group underwent a business restructure. The tax for the change of the equity of the principal legal entity was RMB52.408 million, compared to the tax for the disposal of subsidiaries in the previous year of RMB17.195 million. If taken out the one-time effect of these line items, the income tax realized a YoY decrease of 10.7%. The main reason for the decrease is because during the reporting period, the principal operating entity of the Group enjoy the preferential tax rate for key software enterprises.

Other Non-Cash Expenses

In 2016, the Group's amortization of intangible assets and trademark usage right accounted for 1.3% (2015: 1.8%) of the revenue, representing a YoY decrease of 0.5%. The Group's amortization of intangible assets and trademark usage right were RMB88.012 million (2015: RMB91.961 million), representing a YoY decrease of 4.3%.

In 2016, the Group's allowance for doubtful debts was RMB17.958 million (2015: RMB62.055 million), representing a YoY decrease of 71.1%. This decrease is because in 2015 the Group prepared provisions for bad debts on receivables from disposal of available-for-sale investments, and during the reporting period, the amount was received, resulting in the differences from 2015 to 2016.

In 2016, the Group's share option expenses accounted for 0.7% (2015: 0.3%) of the revenue, representing a YoY increase of 0.4%. The Group's share option expenses were RMB45.285 million (2015: RMB13.637 million), representing a YoY increase of 232.1%. The main reason for the increase is because during the reporting period, the Group granted 130 million shares options to employees.

Profit of the Year and Earnings Per Share

In 2016, the Group's profit for the year was RMB409.833 million, representing a YoY growth of 23.1% (2015: RMB332.984 million).

Excluding the loss for the year attributable to the non-controlling interests in 2016, the Group's profit for the year attributable to the owners of the Company was RMB442.081 million (2015: RMB280.056 million), representing a YoY growth of 57.9%.

In 2016, the Group's basic earnings per share (EPS), based on the profit for the year attributable to the owners of the Company, was RMB 20.34 cents (2015: RMB14.05 cents), representing a YoY growth of 44.8%.

Fundraising Activities

On 3 February 2016, the Group entered into the Subscription Agreement with Huarong International Asset Management Growth Fund (the "Huarong") pursuant to which the Company has conditionally agreed to issue and Huarong has conditionally agreed to subscribe for The total amount of the principal amount is US$70,000,000 (equivalent to approximately RMB458.649 million) of the Convertible Notes due in 2019. The Convertible Notes will be issued in two installments, namely the First Tranche Convertible Notes and the Second Tranche Convertible Notes. The total amount of the First Tranche Convertible Notes is US$30,000,000 (equivalent to approximately RMB196.564 million) and the Second Tranche Convertible Notes total principal amount of US$40,000,000 (equivalent to approximately RMB262.085 million) have been issued in 15 February 2016 and 10 March 2016. The Group will use the proceeds for general working capital purposes.

A. CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Group has complied with the CG Code from 1 January 2016 to 31 December 2016, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2016 (the "2015 AGM") (deviated from code provision E.1.2 of the CG Code) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2015 AGM; (ii) the roles of chairman and chief executive officer were performed by the same individual. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group, As such, the structure is beneficial to the business prospects of the Group. (deviated from code provision A.2.1 of the CG Code).

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

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules relating to dealings in securities. In response to a specific enquiry by the Company, the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

C. BOARD OF DIRECTORS

1. *Composition of the Board of Directors*

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

Executive directors:

Dr. Chen Yuhong *(Chairman and Chief Executive Officer)*
Dr. Tang Zhenming
Mr. Wang Hui (retired on 18 May 2016)

Non-executive directors:

Dr. Zhang Yaqin
Mr. Samuel Thomas Goodner (appointed on 18 May 2016)

Independent non-executive directors:

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

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

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

2. *Meetings and Directors' Attendance*

During the year ended 31 December 2016, the Board held 25 board meetings, 4 of which were regular board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company, 14 of which were for approving the share allotment upon the exercise of share options during the year ended 31 December 2016, and 7 of which were for other discussions on general operations of the Group. The attendance records of the board meetings and general meetings held are set out below:

	Attended/ Number of regular board meetings held	Attended/ Number of board meetings held for approving the share allotment upon the exercise of share options	Attended/ Number of board meetings held for other discussions on general operations of the Group	Attended/ Total number of board meetings held during the year	Attended/ Number of general meetings held during the year
Executive Directors					
Dr. Chen Yuhong	4/4	14/14	7/7	25/25	0/1
Dr. Tang Zhenming	4/4	14/14	7/7	25/25	0/1
Mr. Wang Hui	1/1*	5/5*	1/1*	7/7*	0/1*
Non-executive Directors					
Dr. Zhang Yaqin	4/4	0/14	1/7	5/25	0/1
Mr. Samuel Thomas Goodner	3/3*	0/8*	1/6*	4/17*	0/1*
Independent Non-executive Directors					
Mr. Zeng Zhijie	3/4	0/14	1/7	4/25	0/1
Dr. Leung Wing Yin Patrick	4/4	14/14	7/7	25/25	1/1
Dr. Lai Guanrong	4/4	0/14	2/7	6/25	0/1

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

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

3. *Functions of the Board of Directors*

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

4. *Independent Non-executive Directors*

The three independent non-executive Directors appointed by the Company have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Among the three independent non-executive Directors, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

Dr. Leung Wing Yin Patrick and Mr. Zeng Zhijie were appointed on 22 March 2006 and 21 April 2003 respectively and have served as independent non-executive Directors for more than nine years. Pursuant to code provision A.4.3 of the CG Code, having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence. Dr. Leung Wing Yin Patrick and Mr. Zeng Zhijie have not engaged in any executive management of the Group. Taking into consideration of their independent scope of works in the past years, the Directors consider Dr. Leung Wing Yin Patrick and Mr. Zeng Zhijie to be independent under the Listing Rules despite the fact that they have served the Company for more than nine years.

5. *Chairman and Chief Executive Officer*

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

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

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

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

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

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

Prior to the convening of the annual general meeting of the Company in May 2017, the board of Directors resolved that Dr. Chen Yuhong, Dr. Tang Zhenming and Mr. Zeng Zhijie should retire and stand for re-election at the annual general meeting in accordance with the requirements under the articles of association of the Company.

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

8. ***Directors' Training***

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

During the year ended 31 December 2016, all Directors have participated in continuous professional development, including attending seminars or training sessions and reading newspapers, journals and updates relating to economy, general business or directors' duties and responsibilities etc.. The Company also encouraged all Directors to participate relevant courses which enable them to develop and refresh their knowledge and skills for better fulfillment of the directors' duties.

9. ***Company Secretary***

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

According to Rule 3.29 of the Listing Rules, the Company Secretary of the Company has taken not less than 15 hours of relevant professional training for the year ended 31 December 2016.

D. BOARD COMMITTEES

1. *Remuneration Committee*

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

The Remuneration Committee was established on 28 June 2005. The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the board of Directors for the remuneration of non-executive Directors. The Remuneration Committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management of the Company, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

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

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

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors and senior management of the Company are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2017.

The Company adopted a new share option scheme on 20 May 2013 to replace the original share option scheme adopted on 2 June 2003, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 38 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

2. *Audit Committee*

The Company established an audit committee (the "Audit Committee") on 2 June 2003 and amended its written terms of reference on 31 December 2015 to comply with the requirements in the CG Code. The Audit Committee is mainly responsible for reviewing and supervising the Group's financial reporting and internal control system. During the year ended 31 December 2016, the Audit Committee comprised of three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong. Dr. Leung Wing Yin Patrick is the Chairman of the Audit Committee. The Audit Committee met at least on a semi-yearly basis during the year ended 31 December 2016.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2016 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

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

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

Name of member	Number of attendance
Dr. Leung Wing Yin Patrick *(Chairman)*	3/3
Mr. Zeng Zhijie	2/3
Dr. Lai Guanrong	3/3

3. *Nomination Committee*

The Company established a nomination committee (the "Nomination Committee") on 28 March 2012 with written terms of reference in compliance with the requirement in the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and select and make recommendations to the Board on the appointment of Directors and senior management. During the year ended 31 December 2016, the Nomination Committee comprised of one executive Director, Dr. Chen Yuhong and three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong. Dr. Leung Wing Yin Patrick is the chairman of the Nomination Committee.

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

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

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

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

E. ACCOUNTABILITY AND AUDIT

1. *Director's Responsibility for the Consolidated Financial Statements*

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

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

2. *Internal Control*

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

3. *Auditor's Remuneration*

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB5,680,000 million to the external auditor for their audit services.

F. RISK MANAGEMENT AND INTERNAL MONITORING

1. Accountability

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

2. Structure of Risk Management and Internal Monitoring Governance

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

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

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

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

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

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

3. Risk Management

3.1 Risk Management Objectives

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

- Identify, assess, quantify, respond and manage all current and future significant risks, and contain them at all times at a level and in a scope acceptable to management;

- Establish a consistent and effective monitoring and reporting system for all significant risks;

- Provide reasonable assurance that the Company will comply with the requirements of relevant laws and regulations of external monitoring authorities, and that various departments comply with relevant internal rules and regulations;

- Provide reasonable assurance that significant measures to achieve the Company's targets are properly implemented.

3.2 Major Processes of Risk Management

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

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

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

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

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

3.3 *Significant Risks*

In accordance with the corporate risk management framework, the Group conducted an overall risk audit and assessment in 2016. The following lists the significant risks of the Group and its major affiliates, the changes in the nature and level of these risks, and the relevant plans and monitoring measures to mitigate these significant risks.

Risk Type	Risk Description	Response Mitigation Plan	Risk Trend
Risk in Market Competition	**Ferocious competition, with possible increase of intensity** Current competition for key customers is very keen. Competitors have expanded market share by establishing JVs with key customers and their responses to market change has been quick. This may further aggravate competition in the industry, and may have a negative impact on Company profitability.	Improve the Company's servicing capabilities through technological innovations and learning advanced customer theories, build internal core competitiveness, establish competitive barriers, and improve customer stickiness	Reduced
Risk in Market Promotion	**Risk in market promotion for new type of business** The Company is actively exploring the crowdsourcing model, on which certain investment has already been made in the early stage of platform construction. As new product launch will pose risks for the existing markets, and there also exist uncertainties regarding marketing promotion and consumer acceptance, crowdsourcing will need a transformation of customer habits to gain market visibility and acceptance. The growth rate of the current crowdsourcing market is low, which may have impact on the Company's operating profit.	Achieve word-of-mouth marketing through incessant technological innovation to improve user experience. Interact proactively with government institutions, organize and participate in various industry forums, and fully capitalize on different types of promotion channels to strengthen promotion.	Reduced

Risk Type	Risk Description	Response Mitigation Plan	Risk Trend
Risk of Exchange Rate Fluctuation	**Risk of exchange rate fluctuation** International software business is an important part of the company's main business. Exchange rate fluctuations may have adverse effect on the Company's competitive edge against the competitors overseas, and on the development of the Company's international business. The fluctuations may also, to a certain extent, affect the Company's revenue and profit levels.	The Company will continue to strengthen the analysis and studies on exchange rate fluctuation, and adopt appropriate foreign exchange hedging measures, and select appropriate currencies for quotations to reduce any adverse effects brought about by exchange rate fluctuations.	No change
Risk in Human Resources	**Manpower cost control and staff structure optimization were faced with challenges.** Human resources are an important factor for the survival and development of a high technology enterprise. Core technology, combined with sales personnel and quality leadership team, is the foundation for the maintenance and enhancement of the Company's core competitiveness. However, as labor cost in China continues to rise, Company profitability may be adversely affected. Meanwhile, the Company may be subject to pressure and challenge in the areas of rising manpower cost, attraction and retention of senior professional, and structural optimization of the human resources system.	Strictly control labor idle rate, and increase recruitment from regions where labor costs are lower so as to distribute the pressure of manpower cost. At the same time, improve the incentive system by increasing investment in staff training, with focus on senior business employees so as to build up and maintain a reserve of talents for the Company's sustained growth.	Increasing

Risk Type	Risk Description	Response Mitigation Plan	Risk Trend
Risk in Tax Management	**Tax policy changes leading to increase in tax** The Company currently enjoys a national preferential tax policy granted to hi-tech enterprises or key software enterprises. If there is any adjustment in this policy, the tax incentives enjoyed by the Company may be affected, which may result in the increase of the Company's tax liabilities, and may, to an extent, affect the Company's profitability.	Pay attention to the changes and updates of various tax laws and regulations, monitor all financial indicators of the Company to ensure they meet current preferential tax policy requirements and adopt timely response measures accordingly.	No change
Intellectual Property Risk	**Risk of inadequacy of evidence in preserving intellectual property rights in case of infringement** Infringement of rights in the industry is common. The infringers may take actions such as concealment or destruction of infringing products, which results in relatively big difficulties in the preservation of rights, and may bring economic loss to the Company.	Reinforce the awareness of Company's employees in intellectual property rights protection, further strengthen the efforts in monitoring the market with respect to the protection of intellectual property rights, and take timely actions in preserving and notarizing evidence in relation to the infringement actions.	Reduced

4. Internal Control

4.1 Internal Control Objectives

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

- to reasonably assure that the enterprise is operated and managed in compliance with the laws and regulations, its assets are safe, and its financial reports and related information are true and complete;
- to enhance operating efficiency and performance;
- to promote the achievement of the enterprise's development strategies.

4.2 Internal control

The Group has referred to the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework, and incorporated the Group's business management characteristics in the design of its internal control system, and has established an internal audit team to take responsibility of the internal control function. During the year ended 31 December 2016, the Group completed risk-oriented internal assessments on day-to-day fund management, financial reporting management, procurement and inventory, asset management, and business and debt collection procedures, and periodically followed-up with the rectifications of the problems identified by internal audit. Management and Audit Committee reviewed the internal control assessment reports, and assessed the effectiveness of the Group's risk management and internal control systems. The scope of the review included the Group's major control and risk management functions, such as financial control, operations control and compliance control.

The Board considered that, as at 31 December 2016, the Group had carried out internal control's "plan, review, report and follow-up" processes of the close-loop management system, that the Group's risk management and internal control systems were effective and adequate, that the Company's procedures on financial reporting and the compliance of the provisions under the Listing Rules were effective and adequate and that no significant areas of concern that might affect the Group's financial control, operations control, compliance control and risk management functions had been uncovered.

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

4.3 *Inside information*

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

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

G. INVESTORS AND SHAREHOLDERS RELATIONS

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

H. SHAREHOLDER'S RIGHTS

1. *How shareholders can convene an extraordinary general meeting*

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

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

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

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

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

Report of Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 1 to the financial statements. During the year under review, there were no significant changes in the Group's principal activities.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 82.

The Directors have recommended the payment of a final dividend of HK$0.012 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2016. The proposed dividend payments from share premium account of the Company are subject to approval by the shareholders of the Company at the annual general meeting to be held on Thursday, 18 May 2017 at 4:00 p.m.. Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid on Tuesday, 13 June 2017 to shareholders whose names shall appear on the register of members of the Company on Friday, 2 June 2017.

CLOSURE OF REGISTER OF MEMBERS

(a) For the purpose of determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 15 May 2017 to Thursday, 18 May 2017, both days inclusive. In order to qualify as shareholders of the Company to attend and vote at the AGM, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712– 1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 May 2017.

(b) For the purpose of determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 31 May 2017 to Friday, 2 June 2017, both days inclusive. In order to qualify for the entitlement to the proposed final dividend, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 29 May 2017.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2016 are RMB1,770,016,000 approximately.

SHARE CAPITAL

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 12 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 184. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

(i) Review of our business

A review of the business of the Group for the year ended 31 December 2016 is set out in the sections headed "Chairman's Letter" and "Management Discussion and Analysis" on pages 3 to 5 and pages 27 to 36 respectively of this annual report.

(ii) Principal Risks and Uncertainties

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

(1) Financial Risk

Capital risk

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

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

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

Interest rate risk

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

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

Currency risk

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

Credit risk

The Group conducts business with credible third parties. The Group's policy is that all customers intending to conduct business on credit are required to pass a credit assessment procedure: in order to minimise the credit risk, the management of the Group has delegated specific persons responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period, based on the evaluation of the age of the trade receivable, the credibility of the debtor, payment history and previous revocation experience, to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

(2) Business Risk

Market risk

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

Operational risk

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

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

No any important events which happened after the reporting date of 31 December 2016 affecting the Group.

(iv) Future development of the Group

An indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Letter" and "Management Discussion and Analysis" on pages 3 to 5 and pages 27 to 36 respectively of this annual report.

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

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

(vi) **Environmental Policies and Performance**

The Group encourages environmental protection and promotes awareness towards environmental protection in its daily business operation. For the year ended 31 December 2016, the Group is in compliance with international and national environmental standards and implemented green production policies to raise efficiency and minimize both energy consumption and pollutant discharge. The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the Group's business operation to enhance sustainability.

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

As at 31 December 2016, the Group had a headcount of 47,188 employees (31 December 2015: 31,504). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market as well as the minimum wages guideline as prescribed by the local government from time to time.

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

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

PERMITTED INDEMNITY

Pursuant to the Company's articles of association, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. The Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors and officers of the Group during the year ended 31 December 2016.

DIRECTORS

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

Executive Directors:
Dr. Chen Yuhong
Dr. Tang Zhenming

Non-executive Directors:
Dr. Zhang Yaqin
Mr. Samuel Thomas Goodner

Independent non-executive Directors:
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Lai Guanrong

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

(ii)xsqnof n

Each year, the Company's auditor is engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities the Stock Exchange of Hong Kong Limited, the board of directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 61 of the Annual Report in accordance with Rule 14A.56 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

The Directors also confirm the above connected transactions also constitute related party transactions under the accounting standards, details of which are set out in note 40 to the financial statements. Related party transactions set out in note 40 to the financial statements other than those transactions disclosed above are not considered to be connected transactions.

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

Save as disclosed therein, there were no other transactions required to be disclosed as connected transactions and/or continuing connected transactions in accordance with the requirements of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 64.1% of the Group's total turnover and the Group's largest customer accounted for approximately 53.6% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 50.3% of the Group's total purchases and the Group's largest supplier accounted for approximately 17.3% of the Group's total purchases.

None of the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the five largest suppliers or customers of the Group.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 December 2016, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Prime Partners Development Limited *(Note 1)*	Beneficial interest	139.07	6.01%	5.75%

* *The total number of issued share consists of 2,314,174,436 Ordinary Shares and 103,992,922 Convertible Notes, which could be converted into 103,992,922 Ordinary Shares.*

Note:

1. Dr. Chen Yuhong is deemed to be interested in 139,072,725 shares and through Prime Partners Development Limited, which is wholly owned by Dr. Chen Yuhong.

Save as disclosed above, as at 31 December, 2016, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

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

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

EMOLUMENT POLICY

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

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees, details of the scheme is set out in note 38 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of Directors (on a named basis) and the five highest-paid employed (including the senior management of the Group) are set out in note 9 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2016.

COMPETING INTERESTS

As at 31 December 2016, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AFTER THE REPORTING PERIOD

No any subsequent event of the Group which happened after the reporting date of 31 December 2016.

AUDITOR

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

On behalf of the Board

Dr. Chen Yuhong
Chairman & Chief Executive Officer

Beijing, 27 March 2017

The Group adheres to the vision of "Striving for Success, Sharing and Growing with the Customers". It contributes to and serves the communities where our operations are located, with a conscientious, fair and sincere working attitude, emphasizing cooperation with our business partners and employees. As we strive to achieve healthy financial performance, we also continue to improve our efforts in environmental protection, social responsibilities, and efficient governance.

The Board is responsible for the Group's strategy and reporting in the areas of environmental, social responsibilities and governance. The Board is responsible for the assessment and determination of the Group's risks with respect to environment, social and governance, and ensures the Group has established a proper and effective system in environmental, social and governance, risk management and internal control, and the management confirms to the Board whether such systems are effective.

The Group sorts out and summarizes the social responsibility management tasks for the year, included the environmental, social and governance related issues into this report according to Appendix 27 of the Listing Rules ("Environmental, Social and Governance Reporting Guide"). According to the assessment results of the Group, the table below lists the issues deemed significant by the Group in the areas of environmental, social and governance, and the scope under the "Environmental, Social and Governance Reporting Guide" that these issues belong. This report covers the period from 1 January 2016 to 31st December 2016 (the "Reporting Period"). Its scope extends to Corporate Headquarters as well as all affiliated enterprises.

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

A. ENVIRONMENT

The Group actively responds to the national policy of "construction of an energy saving and environmentally friendly society". It strives to reduce impact on the environment and on climate change, through energy saving and emission reduction. The Group strictly complies with environmental laws and regulations such as the "PRC Environmental Protection Law" (中華人民共和國環境保護法), the "PRC Atmospheric Pollution Prevention Law" (中華人民共和國大氣污染防治法), actively fulfills its responsibilities in the environment, and strives to achieve better results in the environment. During the Reporting Period, there was no incident of non-compliance with the relevant environmental laws and regulation in the Company that should be liable to be proceeded against and punished accordingly.

A1 Emissions

The Group is a service oriented enterprise mainly with office operations, the daily business poses little impact on the environment. The main sources of the Group's emission are generation of greenhouse gases, domestic waste water, discarded computers (electronic garbage) from daily operating office and consumer garbage that may be hazardous or non-hazardous. During the Reporting Period, there was no incident of non-compliance with the relevant environmental laws and regulation in the Company that should be liable to be proceeded against and punished accordingly.

The Group has established a greenhouse gas emission reduction system, and formulated a greenhouse gas emission reduction plan, so as to reduce the emission of greenhouse gas. Details of emission policies are set out in paragraph A2 of this Chapter under Use of Resources.

Domestic wastewater and garbage generated by the Group's daily operation are all handled by logistics companies and the municipal administration.

The Group places high emphasis on the effective recycling of electronic garbage. It adopts the management policy of recycling in whole or in part, repairing and upgrade, to achieve reasonable and effective use of assets and to effectively reduce the generation of electronic garbage. Key initiatives include the following:

- Inventory of fixed assets within the company area were taken, and RAMs were added to computers of the production departments with slow processing speed, which were reassigned, after replacement of power units, to employees with lower demands for computer performance. During the reporting period, the Group put a total of 1,865 old computers to use;

- Scrapped computers were disassembled for reuse of their parts, so as to reduce procurement cost and asset depletion. During the reporting period, the company at Xian disassembled and re-used 120 pieces of RAMs, 60 units of power source, 30 hard disks, and reused the parts. A total of 200 computers were successfully returned to the workforce. Assuming that the procurement cost for a new computer is $4,500, the total saving in procurement costs was $900,000;

- A centralized computer appropriation and transfer program is used to redeploy computers belonging to different projects and different business teams of the Group, so as to increase utilization rate of equipment, and reduce duplicated purchases of idle equipment.

A2 Utilization of Resources

The Group advocates Green Office Practices and incorporates the low carbon footprint philosophy into production operations so that the Group can maximize resource savings, and achieve energy utilization reduction and low carbon emission. The Group has established a series of rules and regulations for the purpose of reducing resource and energy consumptions, and actively implements the following in all facets of daily office routines:

- Adopt the use of LEDs to reduce electric consumption; lighting/air-conditioning switches are labeled with the appropriate energy saving labels;

- "Save Water" labels are posted in lavatories as reminders to cultivate a proper water utilization concept and proper water utilization practice among employees;

- Advocate low carbon green commuting to reduce the use of company cars and to fully utilize public transport, to reduce the use of petroleum, and to reduce energy consumption in commuting by recommending the use of video conferences.

During the Reporting Period, the total renovated office space was 100,903 square meters, all adopted the use of the energy saving LEDs. The company at Xian renovated 68,905 square meters of office space, and installed 20,000 LEDs. Under the same lighting requirement, LEDs save 25% energy as compare with ordinary lightings. This translates into a monthly saving of 16,693 kWh of electricity by the company at Xian since the adoption of LEDs in late 2016.

A3 The environment and natural resources

The Group places heavy emphasis on environmental protection and strives to minimize the impact of the Company's operation on the environment. We encourage staff to use public transport to reduce greenhouse gas emissions so as to achieve "low carbon travelling".

The Group achieves energy saving and reduced use through standardized energy saving practices, energy saving technological innovation, application of renewable energy, enhanced digital management information, promotion of electronic marketing service channels and development of energy saving information applications. These help the Group achieve its goals in environmental protection, and at the same time, provide energy saving information solutions to other industries in the society. During the Reporting Period, the Group made significant efforts in promoting the Big Data and Cloud Storage businesses in the financial and government sectors, and helped various industries as well as the entire society to lower carbon emission through green ICT technology.

B SOCIAL

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

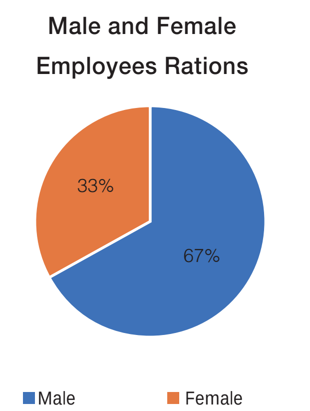
B1 Employment

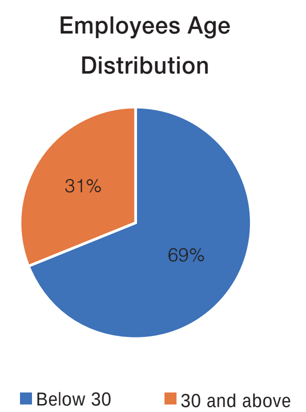
Talents are the core competitiveness of the Group. The Group upholds the principle of equal opportunities in hiring throughout its recruitment process by strictly comply with the "PRC Labor Law" (中華人民共和國勞動法), the "PRC Labor Contract Law" (中華人民共和國勞動合同法), the "Regulations of Insurance for Employment Injury" (工傷保險條例) and other such laws and regulations for the enhancement of democratic elements in management to effectively protect employees' legal rights.

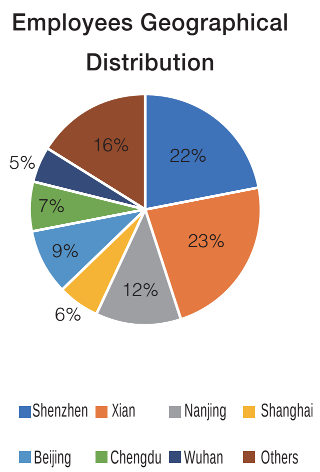
At the same time, under the premise of compliance with the national laws and regulation and combined with the actual conditions, the Group has issued an "Employee Handbook" as a set of implementation standards and operational rules, which serve to give specific requirements for establishing equal employer-employee relationship and protection of the employees' benefits.

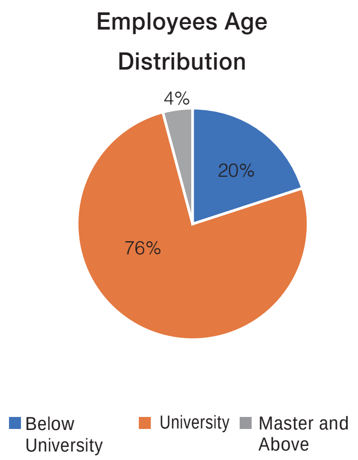
The Group acknowledges that diversity in staff composition is a key factor in maintaining the Group's long term competitive advantage. It supports employee diversity through a number of measures, according to the competitive characteristics of the industry and the requirements of the enterprise's strategic development. The hiring requirements of different positions are in line with relevant labor laws and regulations. Talents in the society are attracted through recruitment of new graduates or introduction of experienced talents, with an aim to promoting diversity of staff composition.

As at 31 December 2016, the Group had a total staff of 47,188, distributed in different regions of the country and different countries of the world. The total number of ethnic minorities in the workforce, including Hui, Tujia, Manchu, Zhuang was 2,110. The male and female ratios, the age distribution, geographical distribution and academic distribution of Company's employees are indicated as below:









One of the Company's development strategic initiatives is to recruit new graduates from campus as trainees. During the Reporting Period, 3,439 new graduates were hired. The Group received high recognition from leadership and students of the target institutes, which greatly enhanced the Group's visibility in the society.

The Company's Campus Recruitment Team

2016 Campus Recruitment Event

The Group advocates a "Happy Chinasoft International" and encourages the staff together with the Company to "Jointly create a wonderful, glorious success". During the reporting period, the Group has organized a network annual meeting, Mid-Autumn Delicacy Garden Party, Basketball Competition, and other activities to promote teamwork and sense of belonging.

2016 Chinasoft International Annual Internet Conversation

The Third Session of Basketball League Competition of Chinasoft International Process IT LOB

The Group has established a salary incentive system which is closely linked with the individual's personal performance and the organization's performance. Full consideration is given to have employees' salaries grow in-sync with the Company's performance, and to ensure that the employees are compensated fairly and have their share of return according to their contributions. Performance appraisals are based on objective facts and data and the process is open and transparent.

During the Reporting Period, the Group organized various public welfare activities, including the "Walk for JointForce, Share and Assist the Young". The Group sent greetings to sanitation workers during festive holidays, visited Xian's "Hand-in-hand Special Education Center" and Dalian's "Autism Support Center" and sent love to the children. With these community activities, the Company has always practiced to fulfill corporate social responsibilities. It insists on doing the ordinary things, light up the road ahead with love and care and contributes continuously to the cause of China's social welfare.





Joint Force • Walk for the Community

Walk For the Community • Sent Rice Dumplings to Sanitation Workers on Dragon Boat Festival

The following sets out the profile of the Directors and senior management of the Company:

DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 54, is the Chairman and the Chief Executive Officer of the Company and is responsible for the overall business development of the Group. He has over 20 years of practicing experience in software information industry. Dr. Chen holds a doctorate degree in optics from Beijing Institute of Technology (北京理工大學) in 1991. Prior to joining the Company on 25 April 2000, Dr. Chen worked at China National Computer Software & Technology Service Corporation ("CS&S") from October 1996 to April 2000, subsequently was appointed as vice president in June 1999 and as senior vice president of CNTC (中軟網絡資訊技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources Information Technology Services Limited. He was also a director of CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd., an associate company of CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd. (中國長城電腦軟體公司).

Dr. Tang Zhenming (唐振明), aged 54, is the senior vice president of the Company. He is responsible for the Group's training department. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Institute of Technology (北京理工大學) in 1994. Prior to joining the Company on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to March 2000 and by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995.

Non-executive Director

Dr. Zhang Yaqin (張亞勤), aged 51, was appointed on 31 December 2008. Dr. Zhang Ya-Qin is currently the President of Baidu Corporation, in charge of emerging business and basic technology system and also the Chairman of Baidu R&D Centre in U.S. Prior to joining Baidu, Dr. Zhang was Microsoft's Corporate Vice President and Chairman of Asia R&D Group, leading Microsoft's R&D efforts in Asia-Pacific, Microsoft's largest R&D establishment outside of US with over 3,000 scientists and engineers. Over 15 year tenure at Microsoft, he has taken various key positions, including the Managing Director of Microsoft Research Asia (2000-2004), Chairman of Microsoft China (2007-2012), Corporate Vice President of Mobile and Embedded Products (2004-2006), and Asia R&D Chairman until September 2014. Before joining Microsoft, Dr. Zhang was Director of the Multimedia Technology Laboratory at Sarnoff Corp. Princeton, New Jersey (RCA Laboratories), where he oversaw the development of several significant digital video encoding and communications technologies for commercial and surveillance/security systems. Prior to that, from 1989 to 1994, Dr. Zhang was a senior technical staff member at GTE Laboratories Inc. (now part of Verizon) Corp. in Waltham, MA. Dr. Zhang is a Fellow of Institute of Electrical and Electronics Engineers (IEEE) and has published more than 500 papers in leading international conferences and journals. He has been granted more than 60 US patents in digital video, Internet, multimedia, wireless and satellite communications. He was a key contributor to the ISO/MPEG and ITU standardization efforts in digital video and multimedia. In 1997, he became the youngest ever Fellow of IEEE and has served as editor-in-chief for several influential IEEE journals. Currently, Zhang serves on the Board of Directors of five high-tech IT companies. He is an honorary or guest professor at more than 20 prestigious universities, and is an advisor to several government agencies. Zhang is also the vice Chairman of Committee 100, a group of leading Chinese-Americans to promote the political, scientific, social, and economic exchanges between the US and China. Dr. Zhang received his B.S. and M.S. in Electrical Engineering from the University of Science and Technology of China (USTC) in 1983 and 1985. He received his Doctor of Science in Electrical Engineering from George Washington University, Washington D.C. in 1989.

Mr. Samuel Thomas Goodner, aged 50, is the founder and former CEO of Catapult Systems, a Microsoft-focused information technology consulting firm with over 400 employees and 9 regional offices across the United States. Mr. Goodner founded Catapult Systems in 1993 at the age of 26. Prior to starting Catapult, he worked in business development at Service Systems International and developed software applications for Dell Computer Corporation. Over the past 20 years, Mr. Goodner also founded two software product companies, PowerDOC and Inquisite, and launched several service brands under the Catapult Systems umbrella including Mobile Alchemy, a mobile application development firm, and Slingrock, an interactive, branding, design and marketing agency. Mr. Goodner served as a mountain infantry officer in the Swiss Army, is a graduate of the MIT/Inc Birthing of Giants program, and a member of the Austin chapter of the Young Presidents' Organization (YPO). He has been repeatedly recognized for his innovation and leadership and was a recipient of the Ernst & Young Entrepreneur of the Year award in 2008. Mr. Goodner holds a Bachelor of Science in Computer Science from Texas A&M University.

Independent Non-executive Directors

Mr. Zeng Zhijie (曾之杰), aged 49, was appointed on 21 April 2003. Mr. Zeng is currently the chairman and a managing partner of Shenzhen Hongtai Fund (深圳鴻泰基金), and the chairman of Houwang Investment (厚望投資). He has been active in the venture capital industry for twenty years. Since 2008, Mr. Zeng has taken the positions of senior managing director of CITIC Capital Holdings Limited, and general manager of Kaixin Investment Co., Ltd. He was responsible for venture capital and growth stage business. From 2001 to 2008, he was a managing director of Walden Internation1t.213 0 Td(in)Tj0.31g, 0 Td(w)Tj0.769 0 Td(

SENIOR MANAGEMENT

Mr. Frank Waung (汪其方), age 51, is the Chief Financial Officer of the Company. He has over 20 years experience in financial management. Mr. Waung holds a bachelor's degree in Computer Engineering from the University of California at Santa Cruz and has a master's degree in business administration from the Wharton School. Prior to joining the Company on 17 April 2012, Mr. Waung was the Chief Financial Officer for China Pharma Holdings Inc., a NYSE AMEX listed China-based manufacturer of western pharmaceuticals from 2009 through 2012. Mr. Waung has also worked as an investment banker with a focus on China for Hickey Freihofner Capital, a special situations analyst at Della Camera Capital Management, a senior market economist and convertible securities trader at SG Cowen, as well as a quantitative marketer at Credit Suisse First Boston.

Mr. Simon Chung (鍾鎮銘), aged 55, is the global chief operating officer of the Company and the chief executive officer in ITO business of Japan. He is responsible for the overall daily operation of the Group. He has over 20 years of experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom and finance sectors. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. Prior to joining the Company, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005.

Mr. Simon Zhang (張崇濱), aged 54, is the senior vice president and chief human resources officer of the Company. He is responsible for the human resources management of the Company. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Company, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an) from 1997 to 1999. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino-US joint venture. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phoenix Medical Equipment Company.

COMPANY SECRETARY

Ms. Leong Leung Chai, Florence (梁良齊), aged 37, is currently the Financial Controller of the Company and responsible for financial reporting, company secretarial functions and assists the Chief Financial Officer on Group's accounting issues. Before joining the Company in November 2005, Ms. Leong worked in an international audit firm for several years. She holds a bachelor degree in Accountancy and has over 10 years' experience in auditing, financial reporting and listing compliance. She is a Certified Public Accountant and a member of the Hong Kong Institute of Certified Public Accountants.

Deloitte.
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TO THE SHAREHOLDERS OF CHINASOFT INTERNATIONAL LIMITED

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment	
We have identified goodwill impairment assessment as a key audit matter because, in determining the recoverable amount, the estimates on which the discount rates and growth rates are based entail a significant degree of management judgement and may be subject to management bias. The determination of whether the carrying amount of goodwill is recoverable requires management to make significant estimates concerning the estimated discount rates and growth rates based on management's view of future business prospects. Details of goodwill and the corresponding key estimation uncertainty on its impairment assessments are disclosed in notes 14 and 4 to the consolidated financial statements, respectively.	Our procedures in relation to goodwill impairment assessment included: • Assessing the valuation methodology; • Challenging the assumptions used, including specifically the growth rates used in preparing the impairment testing model based on our knowledge on the business and industry; • Performing a retrospective review, comparing the historical figures with prior year's budget; • Performing an independent assessment of the discount rate used in preparing the impairment testing model in the assistance of our internal fair value specialists; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

KEY AUDIT MATTERS – CONTINUED

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from project-based development contracts	
We have identified revenue recognition from project-based development contracts as a key audit matter because the estimates on contract costs outcome and expected cost to complete the contracts are based entail a significant degree of management judgement and may be subject to management bias. Revenue from project-based development contracts is recognised under the percentage of completion method which requires estimation made by management. In addition, management's estimates of contract costs outcome and expected cost to complete the contracts based on the budgets prepared for the contracts is highly judgmental and is based on past experiences and assumptions. Details of the revenue from project-based development contracts and corresponding key estimation uncertainty on recognition are disclosed in notes 5 and 4 to the consolidated financial statements, respectively.	Our procedures in relation to revenue recognition from project-based development contracts, on a sample basis, included: • Challenging the Group's critical judgements used on estimation of costs to complete the contract; • Assessing the reasonableness of changes if any on the expected cost to complete the contracts; • Assessing the stage of completion through obtaining the Group's calculations and agreeing the inputs of the contract costs outcome to supporting evidence; • Recalculating the percentage of completion rate and revenue recognised for project-based development contracts; • Performing gross profit analysis; and • Inspecting the completion report for projects completed in the current year.

OTHER INFORMATION

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements – continued

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor’s report is Tsang Kai Tai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Turnover	5	6,783,367	5,129,111
Cost of sales and services		(4,767,529)	(3,605,903)
Gross profit		2,015,838	1,523,208
Other income		41,908	46,259
Other gains or losses		1,807	(17,625)
Selling and distribution costs		(219,022)	(178,581)
Administrative expenses		(806,614)	(627,264)
Research and development costs		(345,269)	(195,318)
Allowance for doubtful debts		(17,958)	(62,055)
Other expenses		(88,012)	(91,961)
Fair value change on derivative financial instruments		–	(1,074)
Finance costs	6	(95,735)	(92,509)
Share of results of investments accounted for using the equity method		17,492	1,907
Gain on disposal of subsidiaries		–	111,724
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary		20,152	3,283
Profit before taxation		524,587	419,994
Income tax expense	7	(114,754)	(87,010)
Profit for the year	8	409,833	332,984

For the year ended 31 December 2016

	NOTE	2016 RMB'000	2015 RMB'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		19,497	10,236
– reclassification to profit or loss upon disposal of a subsidiary		–	3,355
Other comprehensive income for the year, net of tax		19,497	13,591
Total comprehensive income for the year		429,330	346,575
Profit (loss) for the year attributable to:			
Owners of the Company		442,081	280,056
Non-controlling interests		(32,248)	52,928
		409,833	332,984
Total comprehensive income (expenses) attributable to:			
Owners of the Company		461,578	293,548
Non-controlling interests		(32,248)	53,027
		429,330	346,575
Earnings per share			
Basic	11	RMB0.2034	RMB0.1405
Diluted		RMB0.1979	RMB0.1360

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	819,799	537,593
Intangible assets	13	231,075	283,103
Goodwill	14	1,008,479	995,610
Investments accounted for using the equity method	15	104,190	78,857
Available-for-sale investment	16	61,965	49,151
Prepaid lease payments	17	38,723	39,583
Other receivable	19	30,000	11,688
Deferred tax assets	27	7,646	6,516
		2,301,877	2,002,101
Current assets			
Inventories	18	20,893	30,260
Trade and other receivables	19	2,092,700	1,429,127
Bills receivable		23,186	8,828
Prepaid lease payments	17	860	893
Amounts due from customers for contract work	21	1,430,206	1,516,660
Amounts due from related companies	22	59,939	49,862
Pledged deposits	23	670	44,891
Bank balances and cash	23	1,298,972	1,265,831
		4,927,426	4,346,352
Current liabilities			
Amounts due to customers for contract work	21	122,271	87,750
Trade and other payables	24	1,203,843	940,372
Bills payable	25	812	2,120
Amounts due to related companies	22	37,983	34,667
Dividend payable		83	78
Taxation payable		130,450	87,353
Convertible loan notes	28	–	89,622
Borrowings	26	922,452	1,297,016
Consideration payable on acquisition of a subsidiary		21,035	–
		2,438,929	2,538,978
Net current assets		2,488,497	1,807,374
Total assets less current liabilities		4,790,374	3,809,475

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred tax liabilities	27	18,943	20,504
Consideration payable on acquisition of a subsidiary		–	39,205
Convertible loan notes	28	244,296	–
Borrowings	26	194,496	263,496
		457,735	323,205
		4,332,639	3,486,270
Capital and reserves			
Share capital	29	106,387	95,645
Share premium	30	2,652,697	2,106,029
Reserves	30	1,505,130	1,045,531
Equity attributable to owners of the Company		4,264,214	3,247,205
Non-controlling interests		68,425	239,065
Total equity		4,332,639	3,486,270

The consolidated financial statements on pages 82 to 183 were approved and authorised for issue by the board of directors on 27 March 2017 and are signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to the owners of the Company												
	Share capital RMB'000	Share premium RMB'000 (note 30)	Other reserves RMB'000 (note 30)	Translation reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 30)	Statutory enterprise expansion fund RMB'000 (note 30)	Statutory surplus reserve fund RMB'000 (note 30)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	88,014	1,654,687	13,715	(11,532)	48,813	30,391	15,793	26,749	72,658	558,091	2,497,379	203,652	2,701,031
Profit for the year	–	–	–	–	–	–	–	–	–	280,056	280,056	52,928	332,984
Other comprehensive income for the year													
– Exchange differences arising on translation of foreign operations	–	–	–	10,226	–	–	–	–	–	–	10,226	10	10,236
– Reclassification to profit or loss upon disposal of a subsidiary	–	–	–	3,266	–	–	–	–	–	–	3,266	89	3,355
Total comprehensive income for the year	–	–	–	13,492	–	–	–	–	–	280,056	293,548	53,027	346,575
Issue of ordinary shares upon exercise of share options	1,145	50,303	–	–	(10,629)	–	–	–	–	–	40,819	–	40,819
Recognition of share option expenses	–	–	–	–	13,637	–	–	–	–	–	13,637	–	13,637
Cancellation of share options	–	–	–	–	(1,216)	–	–	–	–	1,216	–	–	–
Issue of ordinary shares	3,947	281,430	–	–	–	–	–	–	–	–	285,377	–	285,377
Capital contribution from non-controlling shareholders of a subsidiary	–	–	12,274	–	–	–	–	–	(124)	(1,138)	11,012	16,488	27,500
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(14,542)	(14,542)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(19,560)	(19,560)
Conversion of convertible loan notes	2,539	119,609	–	–	–	(16,715)	–	–	–	–	105,433	–	105,433
Appropriations	–	–	–	–	–	–	–	–	14,599	(14,599)	–	–	–
At 31 December 2015	95,645	2,106,029	25,989	1,960	50,605	13,676	15,793	26,749	87,133	823,626	3,247,205	239,065	3,486,270
Profit for the year	–	–	–	–	–	–	–	–	–	442,081	442,081	(32,248)	409,833
Other comprehensive income for the year													
– Exchange differences arising on translation of foreign operations	–	–	–	19,497	–	–	–	–	–	–	19,497	–	19,497
Total comprehensive income for the year	–	–	–	19,497	–	–	–	–	–	442,081	461,578	(32,248)	429,330
Issue of ordinary shares upon exercise of share options	1,365	60,588	–	–	(6,766)	–	–	–	–	–	55,187	–	55,187
Recognition of share option expenses	–	–	–	–	45,285	–	–	–	–	–	45,285	–	45,285
Cancellation of share options	–	–	–	–	(784)	–	–	–	–	784	–	–	–
Issue of ordinary shares	3,602	185,156	–	–	–	–	–	–	–	–	188,758	–	188,758
Acquisition of additional equity interest of subsidiaries	–	–	(148,758)	–	–	–	–	–	11,773	86,619	(50,366)	(138,392)	(188,758)
Issue of convertible loan notes	–	–	–	–	–	42,519	–	–	–	–	42,519	–	42,519
Conversion of convertible loan notes	5,775	300,924	–	–	–	(32,651)	–	–	–	–	274,048	–	274,048
Appropriations	–	–	–	–	–	–	–	–	30,995	(30,995)	–	–	–
At 31 December 2016	106,387	2,652,697	(122,769)	21,457	88,340	23,544	15,793	26,749	129,901	1,322,115	4,264,214	68,425	4,332,639

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		524,587	419,994
Adjustments for:			
Depreciation of property, plant and equipment		56,192	50,647
Amortisation of intangible assets and prepaid lease payments		88,155	91,961
Finance costs		95,735	92,509
Allowance for doubtful debts		17,958	62,055
Share option expenses		45,285	13,637
Interest income		(4,781)	(4,316)
Share of results of investments accounted for using the equity method		(17,492)	(1,907)
Loss on disposal of property, plant and equipment		103	436
Gains on disposal of subsidiaries		–	(111,724)
Gains arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary		(20,152)	(3,283)
Fair value change on derivative financial instruments		–	1,074
Loss on termination of the interest rate swap		–	2,264
Exchange gain (losses)		(1,910)	20,370
Operating cash flows before movements in working capital		783,680	633,717
Increase in trade and other receivables		(740,076)	(243,133)
Increase (decrease) in amounts due to customers for contract work		34,521	(124,455)
Decrease (increase) in amounts due from customers for contract work		86,454	(106,235)
Increase in amounts due from related parties		–	(3,087)
Increase in trade and other payables		207,802	185,750
Increase in bills receivable		(14,358)	(8,828)
Decrease in inventories		9,367	1,698
Decrease in bills payable		(1,308)	(33,671)
Cash generated from operations		366,082	301,756
Income taxes paid		(74,348)	(42,195)
Net cash generated from operating activities		291,734	259,561

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Investing activities			
Purchases of property, plant and equipment		(303,857)	(272,381)
Placement of pledged deposits		(10,579)	(91,494)
Development costs paid		(35,425)	(59,194)
Purchase of software		–	(9,082)
Investment in available-for-sale investment		(12,814)	(5,895)
Subscription of investments accounted for using the equity method		(9,900)	(2,500)
Payments for termination of interest rate swap		–	(2,264)
Advances to related parties		(10,077)	(197)
Withdrawal of pledged deposits		54,800	69,343
Repayment of loans to staff		–	19,244
Net cash inflow on disposal of subsidiaries	33	–	12,371
Proceeds from disposal of subsidiaries in prior year		25,665	–
Proceeds from disposal of available-for-sale investment in prior year		44,568	8,000
Interest received		4,781	4,316
Proceeds from disposal of property, plant and equipment		242	2,238
Dividend received from investments accounted for using equity method		2,059	1,720
Net cash used in investing activities		(250,537)	(325,775)
Financing activities			
New bank loans raised		3,092,248	2,149,266
Process from issuance of ordinary shares		201,727	285,377
Acquisition of non-controlling interests		(201,727)	–
Proceeds from exercise of share options		55,187	40,819
Issue of convertible loan notes		458,649	–
Capital contribution from non-controlling interests of a subsidiary		–	27,500
Advance from a related company		3,316	7,000
Repayment of borrowings		(3,535,812)	(1,907,460)
Interest paid		(67,885)	(75,326)
Interest paid on convertible loan notes		(20,200)	(7,452)
Repayment of advance from a related party		–	(2,022)
Net cash generated from financing activities		(14,497)	517,702
Net increase in cash and cash equivalents		26,700	451,488
Cash and cash equivalents at beginning of the year		1,265,831	811,435
Effect of foreign exchange rate changes		6,441	2,908
Cash and cash equivalents at end of the year, representing bank balances and cash		1,298,972	1,265,831

1. GENERAL INFORMATION OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2003.

On 29 December 2008, the listing of the shares of the Company was transferred to the Main Board of the Stock Exchange.

The addresses of the registered office and principal places of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

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

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively and the information to particulars of subsidiaries of the Company was reordered to Note 41. Other than the above presentation and disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Other than described below, the directors of the Company consider the application of the new and revised HKFRSs that have been issued but are not yet effective would not have any material impact on the consolidated financial statements.

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

HKFRS 9 Financial Instruments

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

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future will have impacts on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment, which is stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

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

The directors of the Company are in the process of assessing the potential impacts of HKFRS 15 in respect of the Group's Technical professional services business and Internet IT services business contracts, in particular, the identification of performance obligations under HKFRS 15 and the allocation of total consideration to the respective performance obligations that will be based on relative fair values and may potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

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

HKFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB320,193,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16 and hence the Group will recognised a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

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

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the C0 Td(u)Tj0.565 0 Td(0.318 5

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations – continued

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

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

Goodwill

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

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

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

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

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

Interests in associates and joint ventures

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interests in associates and joint ventures – continued

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

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition

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

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

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

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

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

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

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

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

Project-based development contracts

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Project-based development contracts – continued

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

Government grants

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

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

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

Leasing

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

The Group as lessee

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

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

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leasehold land and building – continued

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

Borrowing costs

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

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

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

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment – continued

Buildings under construction for future owner-occupied purpose

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets – continued

Intangible assets acquired in a business combination

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

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

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

Prepaid lease payments

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

Inventories

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

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

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis, other than those financial liabilities classified as at FVTPL, of which interest expense is included in net gains or losses.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL when the financial liability is contingent consideration payable on acquisition of a subsidiary.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss in gain (loss) arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary. Fair value is determined in the manner described in note 32.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payable, amounts due to related companies, dividend payable, consideration payable on acquisition of a subsidiary and borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Convertible loan notes

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

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

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

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

Derivative financial instruments

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Derecognition – continued

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

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

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Retirement benefits costs

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

Short-term employee benefits

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

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

Equity-settled share-based payment transactions

Share options granted to employees of the Group

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

The fair value determined at the grand date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The recoverable amount determination of the CGUs as at 31 December 2016 is based on the present value calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2016, no impairment loss was recognised by the Group (2015: nil). As at 31 December 2016, the carrying amount of goodwill is RMB1,008,479,000 (2015: RMB995,610,000). Details of the recoverable amount calculation are disclosed in note 14.

Project-based development contracts

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aged analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise. As at 31 December 2016, the carrying amount of trade receivables is RMB1,745,753,000 (2015: RMB1,154,199,000) which is after allowance for doubtful debts of RMB182,171,000 (2015: RMB151,431,000) (see note 19).

Amortisation of intangible assets

The carrying value of the Group's intangible assets as at 31 December 2016 was approximately RMB231,075,000 (2015: RMB283,103,000). The Group amortises the intangible assets on a straight-line basis over their estimated useful lives of 3 to 10 years, commencing from the date of the intangible asset is available for use. The estimated useful lives and dates that the Group place the intangible assets into productive use reflects the directors of the Company's estimate of the periods that the future economic benefits can be derived from the usage of the Group's intangible assets. If the estimated useful life of intangible assets did not reflect its actual useful life, additional amortisation may be required.

5. TURNOVER AND SEGMENT INFORMATION

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

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

5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

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

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

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

Information regarding the above segments is reported as below.

Segment revenues and results

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

	Segment revenue		Segment results	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Technical professional services business	5,481,921	3,780,692	533,611	300,814
Internet IT services business	1,301,446	1,348,419	115,656	128,574
	6,783,367	5,129,111	649,267	429,388

During the year ended 31 December 2016, the Group recognised a total of RMB1,647,477,000 (2015: RMB1,709,560,000) revenue from projected-based development contracts.

Reconciliation of segment results to profit before taxation:

	2016 RMB'000	2015 RMB'000
Segment results	649,267	429,388
Other income, gains and losses unallocated	4,727	86,329
Interest charge on convertible loan notes	(32,792)	(8,736)
Corporate expenses	(71,482)	(75,559)
Share option expenses	(45,285)	(13,637)
Fair value change on derivative financial instruments	–	(1,074)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	20,152	3,283
Profit before taxation	524,587	419,994

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

5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Segment revenues and results – continued

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

Segment results represent the profit earned by each segment without allocation of corporate expenses, share option expenses, gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary, interest charge on convertible loan notes and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

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

Geographical information

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

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

	Revenues from external customers	
	2016	2015
	RMB'000	RMB'000
PRC	**6,338,687**	4,571,517
USA	**408,062**	524,057
Japan	**36,618**	33,537
	6,783,367	5,129,111

Segment revenue by products and services:

	2016	2015
	RMB'000	RMB'000
Sale of software and hardware products	**209,597**	297,389
Provision of services		
Technical professional services	**5,413,546**	3,578,708
Internet IT services	**1,160,224**	1,253,014
	6,573,770	4,831,722
	6,783,367	5,129,111

5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Information about major customers

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

	2016 RMB'000	2015 RMB'000
Customer A[1]	3,634,503	1,952,239

[1] Revenue from TPG.

No other single customers contributed 10% or more to the Group's revenue for both 2016 and 2015.

Other segment information

2016	IIG RMB'000	TPG RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	60,003	82,299	2,045	144,347
Allowance (reversal of allowance) for doubtful debts	26,631	(8,673)	–	17,958
Loss on disposal of property, plant and equipment	27	76	–	103

2015	IIG RMB'000	TPG RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	61,092	80,026	1,490	142,608
Allowance for doubtful debts	26,211	35,844	–	62,055
Loss on disposal of property, plant and equipment	76	360	–	436

6. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings wholly repayable within five years	69,633	78,995
Interest on borrowings not wholly repayable within five years	–	13,133
Imputed interest on consideration payable on acquisition of a subsidiary	918	1,287
Effective interest on convertible loan notes	32,792	8,736
Loss on derecognition of trade receivables	4,329	3,491
Total borrowing cost	107,672	105,642
Less: amounts capitalised in construction in progress (Note)	(11,937)	(13,133)
	95,735	92,509

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

7. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	129,162	84,916
– over-provision in prior years	(12,250)	(9,129)
	116,912	75,787
The US Federal and State Income taxes	48	4,727
Japan Corporate Income Tax	485	283
	117,445	80,797
Deferred tax (note 27)	(2,691)	6,213
	114,754	87,010

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

7. INCOME TAX EXPENSE – CONTINUED

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

Pursuant to certificates issued by Beijing Municipal Science and Technology Commission dated 28 October 2011 and 30 October 2014, Chinasoft Resources Information Technology Services Limited (the "Chinasoft Resources Beijing") had been designated as a HNTE till the end of 2014 and extended for another three years till the end of 2017. As a result, Chinasoft Resources Beijing was subject to the income tax rate of 15% for both years.

Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 23 October 2014, Shanghai Huateng Software Systems Co., Ltd (the "Shanghai Huateng") had been designated as a HNTE till the end of 2017. As a result, SHHT is subject to the income tax rate of 15% for the year ended 31 December 2015. In addition, according to the Notice of the Ministry of Industry and Information Technology, the Ministry of Finance, the State Taxation Administration and National Development Reform Commission on Relevant Issues Concerning the Preferential Policies on Enterprise Income Tax of Software and Integrated Circuit Industry ("Cai Shui 2016 No. 49"), and the Notice of the Ministry of Finance and the State Taxation Administration on Further Encouraging the Development of Enterprise Income Tax Policies for the Software Industry and Integrated Circuit Industry ("Cai Shui 2012 No. 27"), Shanghai Huateng was entitled to a reduced income tax rate of 10% for the year ended 31 December 2016.

Pursuant to a certificate issued by the Industry and Information Technology Department of Shanxi Province dated 25 December 2012, Chinasoft International Technology Services Limited (the "CSITS") had been designated as a software enterprise for a period up to 25 December 2017. As such, CSITS was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2012. As a result, CSITS is entitled a 50% tax reduction for the year ended 31 December 2015. In addition, according to Cai Shui 2016 No. 49, and Cai Shui 2012 No. 27, CSITS was entitled to a reduced income tax rate of 10% for the year ended 31 December 2016 as compared to 12.5% for the year ended 31 December 2015 (50% tax reduction).

Pursuant to a certificate issued by the Industry and Information Technology Department of Liaoning Province dated 10 September 2013, Chinasoft International Technology service (Dalian) Ltd., (the "CSITS DL") had been designated as a software enterprise up to 31 December 2017. As such, CSITS DL was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2013. As a result, CSITS DL was entitled a 50% tax reduction for the year ended 31 December 2015 and 2016.

Pursuant to a certificate issued by the Industry and Information Technology Department of Beijing City dated 20 October 2014, Chinasoft International Technology service (Beijing) Ltd., (the "CSITS BJ") had been designated as a software enterprise up to 31 December 2018. As such, CSITS BJ was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2014. As a result, CSITS BJ was entitled a 50% tax reduction for the year ended 31 December 2016 (2015: tax exemption).

7. INCOME TAX EXPENSE – CONTINUED

Pursuant to a certificate issued by the Industry and Information Technology Department of Shanghai City dated 30 August 2014, Chinasoft International Technology service (Shanghai) Ltd., (the "CSITS SH") had been designated as a software enterprise up to 31 December 2018. As such, CSITS SH was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2014. As a result, CSITS SH was entitled a 50% tax reduction for the year ended 31 December 2016 (2015: tax exemption).

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

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

	2016 RMB'000	2015 RMB'000
Profit before taxation	524,587	419,994
Tax at PRC Enterprise Income Tax rate of 25% (2015: 25%)	131,147	104,999
Tax effect of share of results of interests in entities measured under equity method	(4,373)	(477)
Tax effect attributable to tax exemption and concessions granted to PRC subsidiaries	(99,281)	(67,650)
Tax effect of expenses not deductible for tax purpose	50,474	37,839
Tax effect of income not taxable for tax purpose	(5,038)	(3,932)
Over-provision in prior years	(12,250)	(9,129)
Tax effect of utilisation of tax losses previously not recognised	(235)	(2,336)
Tax effect of tax losses not recognised	2,865	28,850
Effect of different tax rates of subsidiaries	(963)	(1,154)
Withholding tax (Note)	52,408	–
Income tax expense for the year	114,754	87,010

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

8. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 9)	11,169	8,411
Other staff costs	4,855,958	3,285,933
Retirement benefits costs (excluding those for directors)	249,243	209,036
Share option expenses	43,980	11,875
Total staff costs	5,160,350	3,515,255
Less: Staff costs capitalised as development costs	(35,425)	(59,194)
	5,124,925	3,456,061
Research and development costs expensed	348,863	198,425
Less: Government grants	(3,594)	(3,107)
	345,269	195,318
Depreciation of property, plant and equipment	56,192	50,647
Amortisation of intangible assets	87,979	91,810
Amortisation of prepaid lease payments	893	1,011
	145,064	143,468
Less: Amortisation of prepaid lease payments capitalised in construction in progress	(717)	(860)
	144,347	142,608
Auditor's remuneration	5,680	5,850
Cost of inventories recognised as an expense	205,631	244,044
Loss on disposal of property, plant and equipment	103	436
Minimum lease payments in respect of buildings	139,927	129,849
Net foreign exchange (gain) loss (included in other gain or loss)	(1,910)	17,189
Interest income from pledged deposits and bank balances	(4,781)	(4,316)
Government grants	(29,055)	(34,881)
Value added tax refund	(1,609)	(1,235)

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

Directors' and chief executive's emoluments

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

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

The executive directors' emolument shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

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

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

Directors' and chief executive's emoluments – continued

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

	Zeng Zhijie RMB'000	Leung WingYin Patrick RMB'000	Lai Guanrong RMB'000 (Note c)	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	103	103	193	399
Other emoluments:				
Salaries and other benefits	–	–	–	–
Sub-total	103	103	193	399

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

	RMB'000
Total	11,169

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

Directors' and chief executive's emoluments – continued

Details of emoluments to the directors and the chief executive for the year ended 31 December 2015 are as follows:

	Tang Zhenming RMB'000	Wang Hui RMB'000	Chief Executive Chen Yuhong RMB'000	Total RMB'000
A) EXECUTIVE DIRECTORS				
Fees	–	–	–	–
Other emoluments:				
Salaries and other benefits	831	2,123	2,694	5,648
Retirement benefits	40	44	44	128
Share-based payments	398	398	398	1,194
Sub-total	1,269	2,565	3,136	6,970

The executive directors' emolument shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	John Zhao RMB'000 (Note b)	Zhang Yaqin RMB'000	Lin Sheng RMB'000 (Note b)	Total RMB'000
B) NON-EXECUTIVE DIRECTORS				
Fees	–	–	–	–
Other emoluments:				
Salaries and other benefits	–	241	–	241
Share-based payments	–	568	–	568
Sub-total	–	809	–	809

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

Directors' and chief executive's emoluments – continued

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

	Zeng Zhijie RMB'000	Leung WingYin Patrick RMB'000	Song Jun RMB'000 (Note a)	Lai Guanrong RMB'000 (Note c)	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS					
Fees	97	298	237	–	632
Other emoluments:					
Salaries and other benefits	–	–	–	–	–
Sub-total	97	298	237	–	632

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

	RMB'000
Total	8,411

Note a: Mr. Song Jun was retired on 18 May 2015.

Note b: Mr. John Zhao and Lin Sheng were resigned as non-executive directors of the Company on 27 April 2015.

Note c: Mr. Lai Guan Rong was appointed as an independent non-executive director of the Company on 2 June 2015.

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

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company whose emoluments were included above. The emoluments of the remaining three (2015: three) highest paid individuals were as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	9,714	10,081
Share option expenses	17,380	6,108
Retirement benefits costs	129	112
	27,223	16,301

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

	No. of employees 2016	2015
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	1
HK$5,000,001 to HK$5,500,000	1	–
HK$6,000,001 to HK$6,500,000	–	2
HK$7,500,001 to HK$8,000,000	–	1
HK$8,500,001 to HK$9,000,000	1	–
HK$10,500,001 to HK$11,000,000	1	–
HK$12,000,001 to HK$12,500,000	1	–
	5	5

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

None of the directors waived any emoluments during both years.

10. DIVIDEND

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK1.2 cents (2015: nil) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

11. EARNINGS PER SHARE

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	442,081	280,056
Effect of dilutive potential profit attributable to owners of the Company: Interest on convertible loan notes	32,792	8,736
Earnings for the purpose of diluted earnings per share	474,873	288,792

	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,173,087	1,992,602
Effect of dilutive potential ordinary shares:		
Share options	36,650	55,838
Convertible loan notes	190,144	74,659
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,399,881	2,123,099

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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST						
At 1 January 2015	–	236,585	15,262	213,769	115,540	581,156
Exchange adjustments	–	1,425	13	–	38	1,476
Additions	9,322	41,157	1,011	205,897	16,699	274,086
Disposals	–	(16,188)	(724)	–	(160)	(17,072)
Disposal of subsidiaries	–	(31,690)	(1,740)	–	(5,026)	(38,456)
At 31 December 2015	9,322	231,289	13,822	419,666	127,091	801,190
Exchange adjustments	–	1,728	14	–	46	1,788
Additions	–	110,271	294	191,206	36,280	338,051
Transfer	603,521	–	–	(603,521)	–	–
Disposals	–	(1,564)	(386)	–	–	(1,950)
At 31 December 2016	612,843	341,724	13,744	7,351	163,417	1,139,079
DEPRECIATION						
At 1 January 2015	–	159,213	10,939	–	75,201	245,353
Exchange adjustments	–	1,170	9	–	28	1,207
Provided for the year	–	32,926	1,111	–	16,610	50,647
Eliminated on disposals	–	(13,584)	(673)	–	(141)	(14,398)
Eliminated on disposal of subsidiaries	–	(15,829)	(635)	–	(2,748)	(19,212)
At 31 December 2015	–	163,896	10,751	–	88,950	263,597
Exchange adjustments	–	1,053	10	–	33	1,096
Provided for the year	2,493	35,837	659	–	17,203	56,192
Eliminated on disposals	–	(1,258)	(347)	–	–	(1,605)
At 31 December 2016	2,493	199,528	11,073	–	106,186	319,280
CARRYING VALUES						
At 31 December 2016	610,350	142,196	2,671	7,351	57,231	819,799
At 31 December 2015	9,322	67,393	3,071	419,666	38,141	537,593

12. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

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

The Group has pledged buildings with carrying amount of approximately RMB601,509,000 (2015: construction in progress with carrying amount of approximately RMB419,666,000) to secure general banking facilities granted to the Group.

At 31 December 2016, the Group is in the process of obtaining the property certificate for the buildings with a carrying amount of RMB601,509,000 (2015: RMB9,322,000) which are located in the PRC.

13. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000	Software RMB'000	Contract-based customer-related intangibles RMB'000 (Note i)	Technical expertise RMB'000 (Note i)	Customer relationship RMB'000 (Note ii)	Patent RMB'000	Trade name RMB'000	Technology RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST											
At 1 January 2015	266,582	17,367	43,467	19,704	12,494	240,925	13,764	1,005	23,344	11,065	649,717
Additions	59,194	–	9,082	–	–	–	–	–	–	–	68,276
Disposal of a subsidiary (note 33)	–	–	(25,643)	–	–	–	–	–	–	–	(25,643)
Exchange adjustments	–	–	247	–	–	2,313	–	2	–	507	3,069
At 31 December 2015	325,776	17,367	27,153	19,704	12,494	243,238	13,764	1,007	23,344	11,572	695,419
Additions	35,425	–	–	–	–	–	–	–	–	–	35,425
Exchange adjustments	–	–	–	–	–	686	–	3	–	667	1,356
At 31 December 2016	361,201	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	732,200
AMORTISATION/IMPAIRMENT											
At 1 January 2015	95,348	16,587	18,438	19,704	12,494	139,440	6,046	967	11,654	3,581	324,259
Provided for the year	44,142	580	7,426	–	–	32,611	1,305	7	3,340	2,399	91,810
Eliminated on disposal of a subsidiary (note 33)	–	–	(3,977)	–	–	–	–	–	–	–	(3,977)
Exchange adjustments	–	–	39	–	–	139	–	–	–	46	224
At 31 December 2015	139,490	17,167	21,926	19,704	12,494	172,190	7,351	974	14,994	6,026	412,316
Provided for the year	57,858	200	5,227	–	–	17,456	1,305	8	3,340	2,585	87,979
Exchange adjustments	–	–	–	–	–	351	–	1	–	478	830
At 31 December 2016	197,348	17,367	27,153	19,704	12,494	189,997	8,656	983	18,334	9,089	501,125
CARRYING VALUES											
At 31 December 2016	163,853	–	–	–	–	53,927	5,108	27	5,010	3,150	231,075
At 31 December 2015	186,286	200	5,227	–	–	71,048	6,413	33	8,350	5,546	283,103

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

Notes:

i. Contract-based customer-related intangibles and Technical expertise are fully amortised intangible assets and still in use by the Group.

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

13. INTANGIBLE ASSETS – CONTINUED

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

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

14. GOODWILL

	RMB'000
COST	
At 1 January 2015	1,179,376
Exchange adjustments	12,312
At 31 December 2015	1,191,688
Exchange adjustments	12,869
At 31 December 2016	1,204,557
IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 31 December 2016	196,078
CARRYING VALUES	
At 31 December 2016	1,008,479
At 31 December 2015	995,610

14. GOODWILL – CONTINUED

Impairment testing on goodwill

For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2016 and 2015 has been allocated to the following individual CGUs:

	2016 RMB'000	2015 RMB'000
Chinasoft Beijing	66,500	187,404
Shanghai Huateng	134,188	134,188
CSITS and existing outsourcing business	399,418	278,514
Catapult Systems, LLC ("Catapult")	201,333	188,464
MMIM Technologies Inc. ("MMIM") and related business	206,210	206,210
Computer Training Center of CS&S ("Training Center")	830	830
	1,008,479	995,610

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

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

CGUs	Discount rate		Growth rate	
	2016	2015	2016	2015
Chinasoft Beijing	13%	13%	3%	3%
Shanghai Huateng	13%	13%	3%	3%
CSITS and existing outsourcing business	13%	13%	3%	3%
Catapult	16%	16%	3%	3%
MMIM and related business	13%	13%	3%	3%
Training center	13%	13%	3%	3%

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

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2016 RMB'000	2015 RMB'000
Cost of unlisted investments	85,271	75,371
Share of post-acquisition profits, net of dividend received	18,919	3,486
	104,190	78,857

Included in the cost of unlisted investments is goodwill of RMB3,052,000 and RMB38,266,000 (2015: RMB3,052,000 and RMB38,266,000) arising from China National Tobacco Information Company Limited and Beijing Chinasoft international Education Technology Co., Ltd ("Beijing Chinasoft EDU"), respectively.

Particulars of the Group's significant investments accounted for using the equity method, both of which are associates of the Group at 31 December 2016 and 2015 are as follows:

Name	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group 2016	2015	Nature of business
北京中煙資訊技術有限公司 China National Tobacco Information Company Limited	Equity joint venture enterprise	PRC	PRC	20%	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry
北京中軟國際教育科技有限公司 Beijing Chinasoft EDU (Note i)	Equity joint venture enterprise	PRC	PRC	49%	49%	Provision of IT training services

Note: As described in note 33, the Group disposed a total of 17.46% equity interests in Beijing Chinasoft EDU in December 2015 and the remaining 49% equity interests are classified as an investment accounted for using the equity method of the Group.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – CONTINUED

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

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

Beijing Chinasoft EDU

	2016 RMB'000	2015 RMB'000
Current assets	148,484	172,322
Non-current assets	77,943	48,010
Current liabilities	(129,361)	(159,755)
Non-current liabilities	(1,964)	(2,618)

	Year ended 31 December 2016 RMB'000	From 22 December 2015 to 31 December 2015 RMB'000
Revenue	312,498	–
Profit and total comprehensive income for the year/period	37,143	–

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

	2016 RMB'000	2015 RMB'000
Net assets of Beijing Chinasoft EDU	95,102	57,959
Proportion of the Group's ownership interest in Beijing Chinasoft EDU	49%	49%
Goodwill	38,266	38,266
Carrying amount of the Group's interest in Beijing Chinasoft EDU	84,866	66,666

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – CONTINUED

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

	2016 RMB'000	2015 RMB'000
The Group's share of (loss) profit and total comprehensive (expense) income for the year	(708)	1,907
Aggregate carrying amount of the Group's interests in these investments	19,324	12,191

16. AVAILABLE-FOR-SALE INVESTMENT

	2016 RMB'000	2015 RMB'000
Unlisted equity investment, at cost, non-current	61,965	49,151

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

As at 31 December 2016, the Group contributed US$10,000,000 (equivalent to RMB61,965,000) (2015: US$8,037,500, equivalent to RMB49,151,000) to PointGuard Ventures which represents 13.29% (2015: 14.67%) of the share of interest. The investment is measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

17. PREPAID LEASE PAYMENTS

	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000
COST			
At 1 January 2015	43,023	1,610	44,633
Exchange adjustments	–	92	92
At 31 December 2015	43,023	1,702	44,725
Exchange adjustments	–	107	107
At 31 December 2016	43,023	1,809	44,832
AMORTISATION			
At 1 January 2015	1,720	1,430	3,150
Provided for the year	860	151	1,011
Exchange adjustments	–	88	88
At 31 December 2015	2,580	1,669	4,249
Provided for the year	860	33	893
Exchange adjustments	–	107	107
At 31 December 2016	3,440	1,809	5,249
CARRYING VALUE			
At 31 December 2016	39,583	–	39,583
At 31 December 2015	40,443	33	40,476

	2016			2015		
	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000	Land use right RMB'000	Trademark usage right RMB'000	Total RMB'000
Analysed for reporting purposes as:						
Non-current assets	38,723	–	38,723	39,583	–	39,583
Current assets	860	–	860	860	33	893
	39,583	–	39,583	40,443	33	40,476

17. PREPAID LEASE PAYMENTS – CONTINUED

The Group's prepaid lease payments comprise payments associated with a land use right of RMB39,583,000 (2015: RMB40,443,000) in the PRC under medium-term lease.

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

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

The Group has pledged land use right with a carrying amount of approximately RMB39,583,000 (2015: RMB40,443,000) to secure general banking facilities granted to the Group.

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Computer hardware, equipment and software products	20,893	30,260

19. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	1,927,924	618,621
Less: Allowance for doubtful debts	(182,171)	(151,431)
	1,745,753	467,190
Trade receivables from related companies (Note)	–	687,009
	1,745,753	1,154,199
Advances to suppliers	72,727	81,208
Deposits, prepayments and other receivables	304,220	205,408
	2,122,700	1,440,815
Analysed for reporting purposes as:		
Non-current assets	30,000	11,688
Current assets	2,092,700	1,429,127
	2,122,700	1,440,815

Note: The balances principally arose from provision of services by the Group to certain related companies (see note 40). The balances as at 31 December 2015 included an amount of RMB679,982,000 due from the group of Huawei and its subsidiaries ("Huawei Group") which was a related party following the establishment of CSITS in April 2012. In February 2016, the Company acquired the 40% equity interest of CSITS from Huawei and Huawei Group were not related parties of the Group thereafter.

19. TRADE AND OTHER RECEIVABLES – CONTINUED

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

	2016 RMB'000	2015 RMB'000
Within 90 days	1,602,798	749,704
Between 91–180 days	94,115	226,564
Between 181–365 days	22,878	164,307
Between 1–2 years	25,099	9,773
Between 2–3 years	863	3,851
	1,745,753	1,154,199

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed each time. 83% (2015: 61%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB138,343,000 (2015: RMB363,592,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the subsequent settlement and the credit quality of these customers had not been deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired.

	2016 RMB'000	2015 RMB'000
Within 90 days	88,463	168,857
Between 91–180 days	6,941	111,795
Between 181–365 days	17,070	69,316
Between 1–2 years	25,006	9,773
Between 2–3 years	863	3,851
Total	138,343	363,592

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

19. TRADE AND OTHER RECEIVABLES – CONTINUED

Movement in the allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	185,502	132,198
Impairment losses recognised on receivables	44,677	62,060
Amounts recovered during the year	(26,719)	(5)
Amounts written-off as uncollectible	(16,560)	(4,281)
Disposal of subsidiaries	–	(4,769)
Exchange adjustments	17	299
Balance at end of the year	186,917	185,502

20. TRANSFER OF FINANCIAL ASSETS

The following are the Group's trade and bills receivables as at 31 December 2016 and 2015 that were factored to a bank on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 26). These receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2016 RMB'000	2015 RMB'000
Carrying amount of trade and bills receivables	30,857	113,525
Carrying amount of associated liabilities	30,857	113,525
Net position	–	–

In addition to the above, as at 31 December 2016, trade receivables amounting to RMB481,030,000 (2015: RMB263,712,000) had been factored to independent third parties without recourse. The Group has derecognised these trade receivables in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these trade receivables to the counter parties. Losses related to derecognition of the trade receivables was RMB4,329,000 (2015: RMB3,491,000) which was charged to the profit or loss.

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

	2016 RMB'000	2015 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	3,832,206	3,451,205
Less: Progress billings	(2,524,271)	(2,022,295)
	1,307,935	1,428,910
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	1,430,206	1,516,660
Amounts due to contract customers for contract work	(122,271)	(87,750)
	1,307,935	1,428,910

There are no advances received from customers for contract work at the end of 2016 and 2015.

22. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2016 and 2015, the amounts due from related companies mainly represent dividend receivable from an associate of the Group and the advance to associates of the Group. The balances are unsecured, non-interest bearing and repayable on demand.

The amounts due to related companies principally represent an advance from a non-controlling owner of a subsidiary of the Company, which is unsecured, interest-bearing at 4.35% (2015: 4.35%) per annum and with a term of one year.

23. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks as collaterals for short-term trade facilities granted to the Group and is therefore classified a current asset. The deposits carry interest at the prevailing market interest rate. The weighted average interest rate at the end of the reporting period was 0.90% (2015: 0.77%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts comprise short-term bank deposits carried at the weighted average interest rates at 0.38% (2015:0.43%) per annum as at 31 December 2016.

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

23. PLEDGED DEPOSITS/BANK BALANCES – CONTINUED

	2016 RMB'000	2015 RMB'000
Hong Kong Dollar	4,402	20,730
United States Dollar	31,016	8,004
Japanese Yen	10,282	2,103

24. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	552,475	473,040
Deposits received from customers	17,800	33,170
Other payables and accrued charges	633,568	434,162
	1,203,843	940,372

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

	2016 RMB'000	2015 RMB'000
Within 90 days	493,523	366,278
Between 91–180 days	20,484	23,706
Between 181–365 days	18,791	21,568
Between 1–2 years	10,770	24,579
Over 2 years	8,907	36,909
	552,475	473,040

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

25. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2016 RMB'000	2015 RMB'000
Within 90 days	812	2,120

26. BORROWINGS

	2016 RMB'000	2015 RMB'000
Unsecured bank loans (Note (i))	925,291	1,248,250
Secured bank loans (Note (ii))	191,657	312,262
	1,116,948	1,560,512

	2016 RMB'000	2015 RMB'000
Carrying amount repayable:		
Within one year	922,452	1,036,831
More than one year but within five years	194,496	211,358
More than five years	–	52,138
	1,116,948	1,300,327
Carrying amount of bank borrowings that are repayable on demand due to breach of loan covenants	–	260,185
Less: Amounts due within one year shown under current liabilities	(922,452)	(1,297,016)
Amounts shown under non-current liabilities	194,496	263,496

26. BORROWINGS – CONTINUED

	2016 RMB'000	2015 RMB'000
Total borrowings		
At floating interest rates (Note (iii))	715,283	936,247
At fixed interest rates (Note (iv))	401,665	624,265
	1,116,948	1,560,512

	2016 RMB'000	2015 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	1,116,948	1,142,208
Denominated in USD	–	418,304

Notes:

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

(ii) Trade and bill receivables with a net carrying value of approximately RMB30,857,000 (2015: RMB125,662,000) are pledged to secure certain bank loans granted to the Group. The remaining bank loans amount to RMB160,800,000 are secured by the land use rights and buildings (2015: RMB186,600,000 are secured by the land use rights and construction in progress) of the Group.

(iii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The weighted average interest rate for the year is 5.37% (2015: 5.18%) per annum. Interest on USD borrowings are mainly charged at LIBOR plus 2.95% for 2015.

(iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 4.35% to 6.31% (2015: 4.6% to 7%) per annum.

26. BORROWINGS – CONTINUED

In respect of bank borrowings with a carrying amount of RMB260,185,000 as at 31 December 2015, the bank has the following requirements: (i) any fund or affiliate of Hony Capital Management Limited ("Hony Capital Parties") must legally and beneficially, directly or indirectly, own at least 12% of the issued ordinary shares of the Company that are traded on the Stock Exchange, and Hony Capital Parties remain, legally and beneficially, directly or indirectly, the single largest shareholder of the Company; and (ii) the Company must adhere to certain financial covenants.

With reference to the announcement of the Company dated 23 April 2015 that the Company was notified that Hony Capital Parties had disposed of an aggregate of 335,076,453 shares ("Disposal of Shares", together with the breach of financial covenants, collectively referred to as the "Non-Compliances") of the Company, which represents approximately 17.29% of the total number of shares issued on 23 April 2015. Upon the Disposal of Shares, Hony Capital Parties ceased to hold any of the Company's Shares. The Disposal of Shares is not consistent with the requirements of the bank. Therefore, the borrowings have been classified as current liabilities as at 31 December 2015.

The bank was aware of the Non-Compliances and had not requested the Company for an immediate repayment of the amount borrowed. As at 31 December 2015, the Company was working closely with the bank to renegotiate the terms of the bank borrowings.

On 17 February 2016, the Company made full repayment of the total outstanding bank borrowings relating the Non-Compliances amounting to RMB260,185,000 and obtained all necessary waivers from the bank regarding the Non-Compliances.

27. DEFERRED TAXATION

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

	Customer relationship RMB'000	Patent RMB'000	Technology RMB'000	Deferred revenue RMB'000	Tax losses RMB'000	Property plant and equipment RMB'000	Accrued expenses RMB'000	Difference between carrying amount and tax basis of interests in an associate RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	(15,272)	(1,929)	(1,754)	489	1,396	804	6,838	–	1,653	(7,775)
Credit (charge) to profit or loss	5,584	326	501	2	(1,396)	–	(1,914)	(7,677)	(1,639)	(6,213)
At 31 December 2015	(9,688)	(1,603)	(1,253)	491	–	804	4,924	(7,677)	14	(13,988)
Credit (charge) to profit or loss	1,808	325	503	(5)	1,336	(804)	(514)	–	42	2,691
At 31 December 2016	(7,880)	(1,278)	(750)	486	1,336	–	4,410	(7,677)	56	(11,297)

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**7,646**	6,516
Deferred tax liabilities	**(18,943)**	(20,504)
	(11,297)	(13,988)

At the end of the reporting period, the Group had unused tax losses of approximately RMB370,470,000 (2015: RMB383,834,000) available for offset against future profits. In 2016, a deferred tax asset has been recognised in respect of RMB3,611,000 (2015: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB366,859,000 (2015: RMB383,834,000) tax losses due to the unpredictability of future profit streams. Tax losses of RMB370,470,000 (2015: RMB383,834,000) will expire in various year before 2021 (2015: 2020).

27. DEFERRED TAXATION – CONTINUED

Under the new EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries and associates as at 31 December 2016 amounting to RMB1,164,297,000 (2015: RMB1,128,484,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. CONVERTIBLE LOAN NOTES

Convertible loan notes issued in 2016

During the year, the Company entered into a subscription agreement with Huarong International Asset Management Growth Fund L.P. (the "Subscriber") pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, a RMB denominated USD settled convertible loan notes which would be settled by aggregate principal amount of US$70,000,000 (translated to RMB458,649,000 at a fixed exchange rate of RMB6.5521 to USD1, or RMB Equivalent Principal Amount). The convertible loan notes were issued in two tranches. The first and second tranche convertible loan notes amount to US$30,000,000 (translated to RMB196,564,000 at a fixed exchange rate) and US$40,000,000 (translated to RMB262,085,000 at a fixed exchange rate), and have been issued on 15 February 2016 and 10 March 2016, respectively. The maturity dates of the first and second tranche convertible loan notes (the "Maturity Date") are 15 February 2019 and 10 March 2019, respectively.

The convertible loan notes entitle the holders to convert them into 181,987,612 ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or prior to the Maturity Date at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue, capital distribution and certain other dilutive events) of HK$3 per share, translated to RMB2.52 per share at fixed exchange rate. Interest of 4.5% per annum will be paid semi-annually with the first interest payment dates fell on 15 August 2016 and 10 September 2016 for the first and second tranche convertible loan notes, respectively. Outstanding convertible loan notes will be settled by the Company at the Maturity Date in US$ in an amount equivalent to the RMB Equivalent Principal Amount outstanding together with accrued interest.

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the Maturity Date. The note holder may terminate and request immediate redemption of the convertible loan notes in US$ in an amount equivalent to the RMB Equivalent Principal Amount then outstanding together with accrued interest upon occurrence of certain events of defaults. Details of the issue of convertible loan notes were set out in a circular dated 3 February 2016 issued by the Company.

At initial recognition, the conversion option component of the convertible loan notes that may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity was separated from the liability component. The conversion option component upon initial recognition is presented in equity under the heading of convertible loan notes reserve. The effective interest rates of the liability component for the first tranches and second tranches are 8.36% and 8.08% per annum, respectively.

28. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2010

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

The 2010 Convertible Loan Notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 29 November 2016 at a conversion price of (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue, capital distribution and certain other dilutive events) of HK$2 per share, translated to RMB1.718 per share at fixed exchange rate. If the notes have not been converted, they will be redeemed by the Company on 29 November 2016 at the principal amount outstanding together with accrued interest thereon up to an including 29 November 2016. Interest of 4.25% will be paid semi-annually until the settlement date.

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to 29 November 2016. The note holder may terminate and request immediate redemption of the convertible loan notes at their principal amount then outstanding together with accrued interest upon occurrence of certain events of defaults. All the 2010 Convertible Loan Notes have been converted as at 31 December 2016.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity headed convertible loan notes reserve. The effective interest rate of the liability component is 7.24% per annum.

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

	2016 RMB'000	2015 RMB'000
Carrying amount at the beginning of the year	89,622	193,771
Converted by the notes holders	(274,048)	(105,433)
Issued during the year	416,130	–
Interest charge (note 6)	32,792	8,736
Interest paid	(20,200)	(7,452)
Carrying amount at the end of the year	244,296	89,622

29. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2015, 31 December 2015 and 2016	4,000,000,000	200,000

	Number of shares	Amount HK$	Amount shown in the financial statements RMB'000
Issued and fully paid			
At 1 January 2015	1,874,585,283	93,729,265	88,014
Exercise of share options (Note i)	28,200,000	1,410,000	1,145
Conversion of convertible loan notes (Note ii)	64,022,721	3,201,136	2,539
Issue of ordinary shares (Note iii)	100,000,000	5,000,000	3,947
At 31 December 2015	2,066,808,004	103,340,401	95,645
Exercise of share options (Note i)	31,880,000	1,594,000	1,365
Conversion of convertible loan notes (Note ii)	130,376,917	6,518,846	5,775
Issue of ordinary shares (Note iv)	85,109,515	4,255,475	3,602
At 31 December 2016	2,314,174,436	115,708,722	106,387

29. SHARE CAPITAL – CONTINUED

Notes:

(i) During the year ended 31 December 2016, share options to subscribe for 31,880,000 (2015: 28,200,000) ordinary shares of HK$0.05 each were exercised from HK$0.97 to HK$2.15 (2015: HK$1.67 to HK$2.15) per share (see note 38). These shares rank pari passu with other shares in issue in all respect.

(ii) During the year ended 31 December 2016, convertible loan notes issued in 2010 with the principal amount of RMB90,000,000 (2015: RMB110,000,000) were converted into 52,382,227 (2015: 64,022,721) ordinary shares of HK$0.05 each at a conversion price of RMB1.718 (2015: RMB1.718) per share (see note 28). In addition, convertible loan notes issued in 2016 with the principal amount of USD30,000,000 (translated to RMB196,563,000 at a fixed exchange rate) were converted into 77,994,690 ordinary shares of HK$0.05 each at a conversion price of HK$3.00 (translated to RMB2.52 at a fixed exchange rate) per share (see note 28). These shares rank pari passu with other shares in issue in all respect.

(iii) For the purpose of business expansion and supplement working capital, the Company issued 100,000,000 ordinary shares of HK$0.05 each, for consideration of HK$3.68 per share during the year ended 31 December 2015. These shares rank pari passu with other shares in issue in all respect.

(iv) In February 2016, the Company issued 85,109,515 ordinary shares of HK$0.05 each to Huawei Technology Company Limited ("Huawei") to acquire the 40% equity interests of CSITS, details are set out in note 34.

30. SHARE PREMIUM AND RESERVES

Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

No dividend has been paid and distributed in years 2015 and 2016.

Other reserves

When the proportion of the equity held by non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Other reserve mainly represents the differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received after taking account of the effect of reallocation of certain other reserves of the subsidiaries.

30. SHARE PREMIUM AND RESERVES – CONTINUED

General reserve fund and statutory enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, foreign invested enterprises are required to provide for the general reserve fund and the statutory enterprise expansion fund. Appropriations to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC and the amount and allocation basis are decided by their respective boards of directors annually. The general reserve fund can be used to make up prior year losses of these subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory enterprise expansion fund is used for expanding the capital base of these subsidiaries by means of capitalisation issue.

Statutory surplus reserve fund

As stipulated by the relevant laws and regulations in the PRC, the PRC subsidiaries other than foreign invested enterprises are required to provide for the statutory surplus reserve fund. Appropriations to such funds are made out of 10% of the net profit after taxation as reported in the statutory financial statements of the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 26, convertible loan notes disclosed in note 28, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising share capital, share premium, reserves and accumulated profits.

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

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	3,406,547	2,712,063
Available-for-sale investment	61,965	49,151
Financial liabilities		
Amortised cost	2,418,933	2,463,614
FVTPL – contingent consideration payable	–	20,152

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, amounts due from/to related companies, pledged deposits, bank balances and cash, available-for-sale investment, trade and other payables, dividend payable, borrowings, bills payable, consideration payable on acquisition of a subsidiary and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances d [illegible]

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