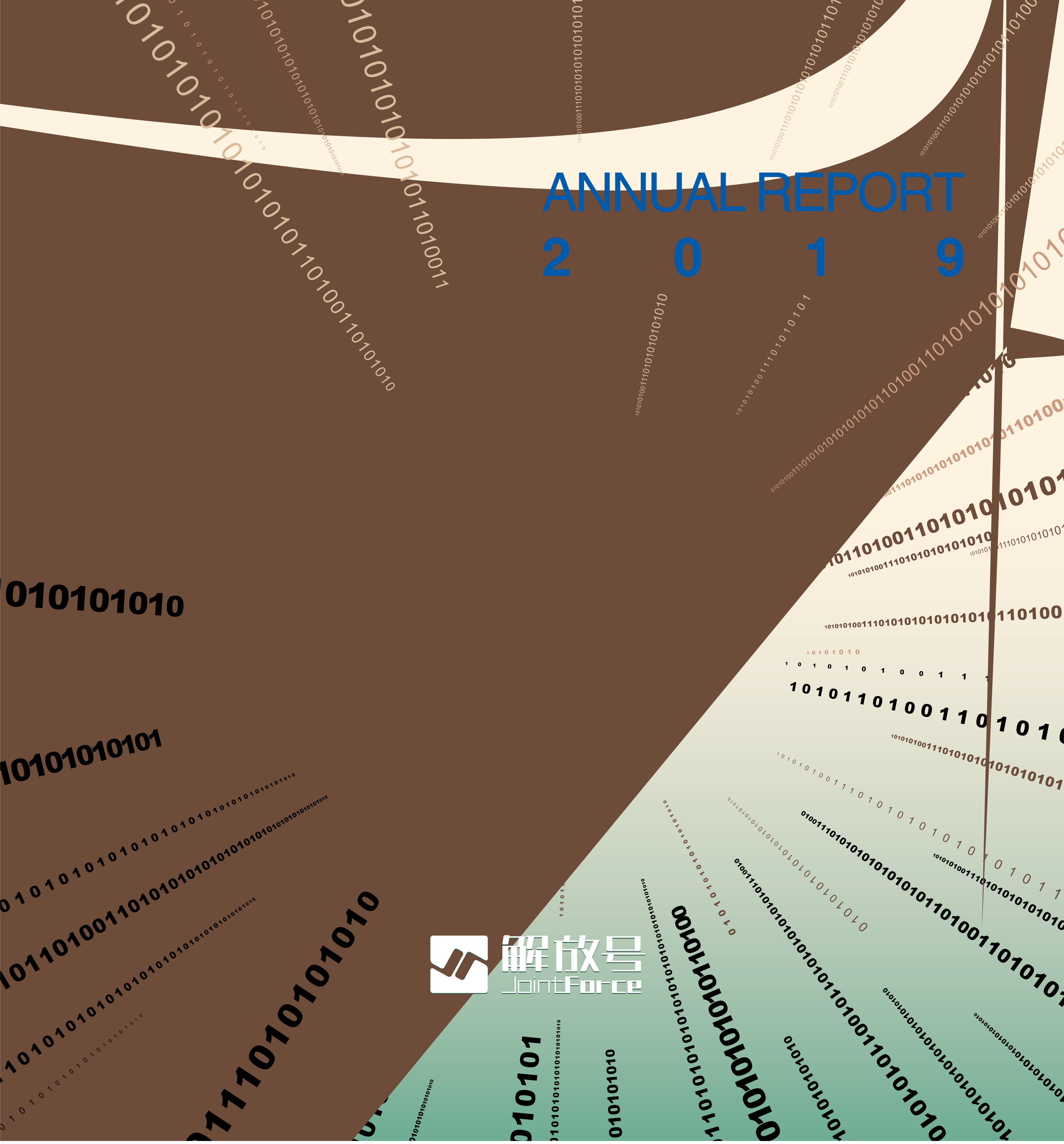
ANNUAL REPORT 2019



Chinasoft International Limited
中軟國際有限公司*

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

* for identification purpose only

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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. Gao Liangyu
Mrs.Gavriella Schuster

Independent non-executive Directors

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Leong Leung Chai Florence

AUTHORISED REPRESENTATIVES

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

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Dear Investors,

Upon the publication of this annual report, there will be more than two million cases of COVID-19 diagnosed worldwide. During this extraordinary period, we thank you for standing firmly alongside the Company as we endure this historical challenge. Thanks to Huawei's SD (Supplier Development) Plan, the Company has made great progress in risk management, especially in business continuity management (BCM). We have remained relentless in operations and maintained our bottom-line thinking methodology to achieve a healthy debt-asset ratio and cashflow. The Company activated level one protocol of BCM as soon as possible to ensure the safety of employees and the continuity of the business. Through our relentless efforts including having employees work remotely, the work resumption rate has reached 50% on February 3rd, and has exceeded 95% by April 10th. During this period, in an email to all employees titled "Leaping in the Year of the Gengzi", I wrote "the only way to remain immune to all poison it to make yourself stronger." This is the case for responding to the epidemic as well as ensuring the healthy development of the Company.

The main theme of the Company in 2019 is "to take on the challenges of 2019, demonstrate our value, and keep pace with the advancement of "wartime Huawei"". During the reporting period, the Company was ranked among Gartner's Top 100 Global ITS Provider (in terms of market share) for the first time in 2018, and together with Huawei Procurement, we confirmed the development vision of becoming the "world's best IT service provider". In March, the Company held its annual board meeting in Shanghai. Company directors including Dr. Zhang Yaqin, Mrs. Gavriella Schuster, Corporate Senior Vice President of Microsoft Global Partners, as well as industry leaders such as Mr. Vishal Sikka, former Infosys CEO and former SAP CTO, agreed with the Company's management team on the vision to seize the opportunities for cloud intelligence transformation, further consolidating the Company's blueprint. At the Annual General Meeting (the "AGM") held in May, the Company's management elaborated on the Company's cloud transformation strategy and its three-year plan: seize the opportunity of cloud native, accelerate digital business, stabilize cornerstone business, upgrade Jointforce platform, and continue to move towards established goals. In June, the Company held its mid-year meeting for core managements. During this meeting, the Company revisited its strategy, and deployed key tasks to achieve the Company's vision. Currently, it seems that we have achieved the goals we announced at the AGM for 2019, and the main progress is as follows:

I. FOCUS ON CLOUD INTELLIGENCE: INCREASE INVESTMENT IN DIGITAL SERVICES, ACCELERATE NON-LINEAR GROWTH DRIVEN BY IP AND ECOSYSTEM

During the reporting period, global cloud infrastructure spending exceeded traditional spending for the first time, creating a historical development opportunity for cloud computing. For this reason, we have formally formed the Cloud Intelligence Group (CIG) and increased our R&D on cloud products, cloud tools, cloud solutions, and cloud native professional services. We will consolidate IP's, integrate ecosystems, accelerate the construction of full-stack service capabilities, achieve the annual goal of cloud smart business revenue, and take a solid step in creating a nonlinear growth driver.

Chairman's Letter

The Company has entered the fast lane of cloud management services, creating a new cloud management service brand, CloudEasy. CloudEasy provides customers with "one-stop" cloud services including consultation, migration, operation and maintenance, value-added development, etc. Through this, we became the earliest digital transformation driver for our customers and was successfully ranked as the Top 3 in the Chinese cloud management services market according to IDC. The Company continued to deepen the cooperation of Huawei Cloud's "sailing on the same boat" and became Huawei Cloud Class 1 distributor in Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, Shaanxi and other key regions. Furthermore, the Company achieved a 10x increase in the sales performance of Huawei Cloud's long-tail customers and was ranked as the number one channel partner for the Huawei Cloud ecosystem. We continued to develop industry solutions including smart parks, smart retail, smart customer service, data governance, smart credit, business factoring cloud, and enterprise cloud disk. Multiple digital office solutions based on WeLink was launched on Huawei Cloud Marketplace" (supporting the Kunpeng structure) and acquired nearly 1,000 paying customers. Our enterprise cloud disk was launched in Huawei's oversea Cloud Marketplace, and we are planning to launch it in Thailand and Mexico. In addition, a variety of SaaS such as "Zker" Academy were launched on Huawei Cloud Smart Work Platform, WeLink. Lastly, we introduced solutions such as the rail ticketing cloud based on Kunpeng to the market and received good reviews.

During the reporting period, the Company's strategic cooperation with Huawei continued to strengthen as the Company actively participated in the construction of Kunpeng and HMS ecosystems. The Company became the first batch of Huawei Kunpeng Cloud strategic partners and carried out in-depth cooperation in Kunpeng migration professional service, Kunpeng joint laboratory, and Kunpeng talent training. Currently, our Kunpeng expert service has covered more than 30 industry scenarios, has practical experience in 500+ component migration and implementation, and has contributed to more than 400 cases of technical best practices. Furthermore, we have co-built Kunpeng Innovation Lab and Artificial Intelligence Innovation Center in Xi'an and Chongqing with Huawei and established an Intelligent Innovation laboratory and a training base for intelligent talent training. We accelerated the promotion of Kunpeng cloud business in multiple regions, accelerated the standardization and productization of operational services, and deepened bilateral cooperation with Huawei and local governments. During the reporting period, we became the best supplier for the annual framework of Huawei's consumer business group, participated in the research and development of 17 core functions in HMS Core 4.0, and continued to provide high-quality services for HMS upgrades.

During the reporting period, the Company clearly defined the strategic position of its data business with emphasis on "open source cloudization" and "trusted digitalization" capabilities, increase investment in IP's, accelerate the promotion of enterprise-level digital planning and implementation capabilities based on the concepts of technology center, business center, and data center, and help companies build comprehensive digital and intelligent support platforms and operating systems. Lastly, we will continue to focus on industries such as administrative government, smart cities, police services, transportation, manufacturing, and finance, construct the industrial benchmark and duplicate it rapidly, capture the dividends from digital economy continuously.

II. IMPROVE BUSINESS QUALITY AND SERVICE VALUE: CONTINUE TO INNOVATE AS CATALYST FOR CORNERSTONE BUSINESS DEVELOPMENTS

Our goal for the cornerstone business at the beginning of the year is to "provide RMB10 billion worth of quality and valuable services." During the reporting period, our Huawei business overcame business volatility to focus on building capabilities and improving business qualities. Taking advantage of the SD program with Huawei, we continuously improved service quality, service value and management capabilities, and strengthened process-oriented organization construction. In November, we successfully passed the annual SD evaluation from Huawei's expert team, and made great progress in business matching, service implementation, risk management, technical capabilities, human resource management, and innovation. At the same time, we leveraged what we learned in the SD program and exported that knowledge to other large customers. We will focus on BAT (Baidu, Alibaba, Tencent), Ping An, China Mobile, etc., and turn them into large customers with revenue contributions of more than USD100 million. We will use the SD program's requirement as standards for our cornerstone business and become our customers' credible partner.

"Renovate the traditional businesses with Jointforce platform" is the innovative development idea determined by the Company at the upper management meeting at the beginning of the year. During the reporting period, we officially launched a human resource outsourcing service for medium to long tail customers on the Jointforce platform - "Plan Z". "Plan Z" outputs our Company's outsourcing business management capabilities in the form of SaaS services, including full-process management of recruitment, human resource management, etc., as well as reducing labor costs and management scope, overall improving service experience. "Plan Z" fits well with the fragmented demand of the medium to long tail market. It helps small to medium-sized enterprises to achieve flexible employment and idle resource utilization, and is highly recognised by the market. More than 700 suppliers have settled in the zone, with a total contract value of over RMB300 million. Currently, the utilization of "Plan Z" is increasing through the Jointforce platform, helping realize transformation of mid-long tail outsourcing from cornerstone business to platform business.

III. PUSH THE "CLOUD INTEGRATIVE SERVICE" WITH FULL EFFORT ON MARKETING: UPGRADING JOINTFORCE PLATFORM TO BECOME THE INDUSTRIAL INTERNET OF CUSTOMIZABLE SOFTWARE

After a year of market validation and improvement, the "Cloud Integrative Service" has evolved to be optimal for application scenario of centralized management, from service products to supporting operations. It is also highly recognised by governments nationwide and possesses a market influence that continues to expand. In 2019, the "Cloud Integrative Service" signed with 10 cities across the country, serving a total of more than 2,400 government IT projects. Nanjing's "Cloud Integrative Service" achieved remarkable operating results, completing 855 projects throughout the year, with transaction value over hundreds of millions of RMB, reducing over 5% costs, and significantly improving procurement efficiency. Based on the practical experience of the "Cloud Integrative Service" in the past two years and the profound accumulation of Jointforce platform's ecosystem, Jointforce platform is being fully upgraded to the Industrial Internet for software customization. We are developing a bilateral market for the digital transformation of government and enterprises, and making full efforts to enter the blue sea of Internet IT outsourcing market.

Chairman's Letter

To our dearest investors: As you may recall, in 2003, we were the first company to list in the Hong Kong Stock Exchange after SARS. Our Company only had RMB50 million in sales revenue. After 16 years of development, we have become one of the leading Chinese IT service enterprises with sales revenue of over RMB10 billion. As the saying goes, "Infinite scenery at the dangerous peak". Therefore, we firmly believe that China will be stronger after this pandemic. As digitization process of the government and enterprise industry accelerates, and as 5G and AI technology lead the new infrastructure, it will bring more opportunities to the digital economy!

Faced with new circumstances, especially the severe threat of internal and external BCM, our Company has identified seven key points for its development in 2020. First, we would like to serve Huawei and major key account (KA) customers to "control risks" and become the main force of its flexible human resource allocation, continue to build and improve capabilities around SD, and greatly improve the performance of R&D outsourcing suppliers. Secondly, we will seize the national "information technology innovation" strategic opportunity, help Huawei in areas needed, become a new force of Kunpeng and Hongmeng ecosystem, and realize the absolute success of the "sailing on the same boat" cooperation. Third, we will accelerate the development and cultivation of key account (KA) customers to complete the ecological strategic cooperation layout, replicate Huawei's business model (through outsourcing and solution services) to become KA's main ecological partner, and achieve the development goal of acquiring customers with more than USD100 million contribution. Fourth, we will improve our Company's consultation, solutions and professional services, consolidate service capacity, upgrade the service catalog, and help large customers and "large particle" solutions achieve major growths. Fifth, we will establish the positioning of the Jointforce platform in customizable software Industrial Internet industry, optimize our organization and talents, hard-core polish our products, improve operational efficiency, accelerate the precipitation of data assets and accumulate customer traffic, and gain mainstream market recognition. Sixth, we will accelerate the construction of a process-oriented organization, focus on ensuring three types of processes including business, enablement and support, strengthen the risk management system and compliance system, and ensure absolute safety of business continuity. Seventh and lastly, through the DSTE (Develop Strategy to Execution) process, we will continuously review the nature of new business, adjust and determine our Company's transformation and innovation, R&D investment, acquisition and merger strategies and plans, build supporting product lines, and ensure adequate reserves of growth assets.

Dear investors, we are facing superimposed dangers and superimposed opportunities at the same time, giving us the opportunity to live to the fullest. I look forward to taking on the fierce challenges of 2020 together!

Chairman
Chen Yuhong
Spring 2020

1. KEY LINES OF BUSINESS

Founded in 2000, the Company is a large-scale integrated software and information service provider, providing “end-to-end” IT services to customers worldwide. Since going public in 2003, the Company has always been committed to become a world-class information technology service leader. Its business has achieved rapid growth for 17 consecutive years and continues to lead the domestic software service industry. The Company is ranked 14th in the “Top 100 Chinese Software Business Companies (in terms of revenue)” by the Ministry of Industry and Information Technology in 2019, No. 10 in the “Top 100 Comprehensive Competitiveness of Software and Information Technology Services in 2019”, and successfully ranked among Top 100 in Gartner’s “IT service market share, worldwide” with more than RMB10 billion service income.

The Company has more than 300 software copyrights and patents, providing customers with “end-to-end” IT services. It has rich consultation, design, implementation and service experiences in the digital application of new technologies including cloud computation, big data, artificial intelligence, Internet of Things, and mobile Internet, comprehensively helping customers to achieve digital transformation. It serves customers including many Fortune 500 companies and many high-growth potential industry leading customers in industries including finance, telecommunications, Internet and high technology, government, manufacturing and circulation, public utilities (transportation, energy), education, etc. In addition to China, the Company has operations in Asia Pacific, North America, Europe, and Latin America.

- **Technology Professional Services Group（TPG）**

  TPG provides technical services and solutions to large customers and industries. Adhering to its consultation driven methodology, the Company uses its self-developed software platform, with mature project management skills and human resource capabilities, training a large number of industry experts and technical experts. The Company has deep technical application accumulation in cloud computation, big data, artificial intelligence, Internet of Things, mobile Internet etc. And the Company is an important partner for customers’ digital transformation, with key customers include Huawei, HSBC, Ping An, Bank of Communications, China Construction Bank, Microsoft, GE, Tencent, Ali, Baidu, China Mobile, China Telecom, etc. Furthermore, it is reputable in industries such as finance, telecommunications, high technology, government, manufacturing and circulation, and public utilities (transportation, energy).

  In recent years, TPG has seized the development opportunities of customers’ digital transformation, made full use of the accumulated advantages of the existing industry know-hows, focused on digital transformation services, accumulated a lot of practical digital transformation experiences, and launched the “CloudEasy Cloud Manager” service. The “CloudEasy Cloud Manager” was introduced through the mature cloud service capabilities of Catapult, the Company’s North American subsidiary. The Company’s expert team successfully replicated this service to multiple mainstream cloud platforms such as Huawei Cloud and Tencent Cloud to provide customers with one-stop cloud services, including cloud consultation, cloud migration, cloud operation and maintenance management, cloud application development and integration, and cloud solutions. Among them, the cloud management service was successfully ranked as the Top 3 in the CMS Market in China according to IDC. Cloud product and solution capabilities have also achieved rapid breakthroughs. Based on the advantages of existing products and solutions, the Company has successfully achieved cloudification of products and solutions in manufacturing, finance, and transportation industries. Furthermore, it has also expanded a number of new application industries and scenarios. The existing cloud products and solutions include:

– Products: ResourceOne (R1) middleware platform, cloud management platform;

– Finance: smart customer service, smart factoring, internet smart credit, etc.;

– Manufacturing: logistics route optimization, smart retail, etc.;

– Transportation: Rail transit ticket cloud;

– Education: Smart education;

– Park: Smart Park;

– General Solutions: Enterprise cloud disk, digital workplace, data governance, DevOps.

Huawei's business, financial business, telecommunications business, Internet business, high-tech business, etc. are the key businesses of TPG which are highly recognised by customers. The Company provides customers with software platform services, strategy, business and IT consulting, big data products and services, industry and general application software and solution development, mobile Internet and terminal product development services, product engineering, application development and management services, enterprise application services, system integration and services, service outsourcing, business process outsourcing (BPO), and other IT services in order to meet the customer's IT, digital, and intelligent needs. TPG has continuously invested in research and development for many years, and has deep cultivation into industry solutions. Standardized products and solutions accumulated include:

– Products: TopLink/TSA + platform, big data middleware products (ARK);

– Finance: Payment and clearing system, bank card system, credit business system, risk control system, etc.;

– Telecommunications: Mobile payments, mobile instant messaging, mobile communities, etc.;

– Internet: Product development, e-commerce, UI design, web development, etc.

– High technology: Globalization, offshore delivery centers, etc.;

– Government: Audit and supervision management, social insurance and welfare management, state-owned asset management, etc.;

– Manufacturing and circulation: Manufacturing Execution System (MES), Enterprise Application Integration (EAI), Logistics Execution System (LES), etc.;

– Transportation: Automatic Fare Collection (AFC), Automatic Clearing Center (ACC), airport flight inquiry system products, etc.;

– General Solution: Customer Relationship Management (CRM), Office Automation (OA), Business Intelligence (BI).

Among them, solutions such as payment and clearing systems and bank card systems have been leading the banking market for many years according to IDC. Furthermore, auditing solution ranks the first in the auditing market for many years according to IDC. Lastly, many solutions such as Manufacturing Execution System (MES) and Automatic Clearing Center (ACC) system have also ranked the first in market share for many years.

- **Internet IT Services Group (IIG)**

  IIG is targeted at the long-tail customers based on Jointforce platform as the core vehicle. Jointforce is an online IT crowdsourcing platform that provides online transaction and software development management services, matching, coordinating and guaranteeing service providers (contracting companies) and engineers stationed on the platform to provide quality IT services to customers (outsourcing companies). Jointforce promotes accurate and fast matching of the software supply and demand side, introduces software asset management capabilities, and solves the problem of an extremely fragmented IT service market in China. Since its commercial use in June 2015, Jointforce has continuously iterated and explored new business models, and further upgraded to a business platform including Cloud Integrative Service, “Plan Z” and Cloud Software Park.

  The Cloud Integrative Service is a service cloud platform built around the four core capabilities of procurement transactions, digital supervision, service aggregation, and supplier big data. It provides government IT service projects with the entire cycle and process from tendering and bidding, project delivery, and online software asset management service. Furthermore, it shortens government procurement cycles, standardizes software asset management, and improves delivery quality. In 2019, the Cloud Integrative Service launched dedicated environmental services and a new SaaS cloud for digital supervision and full-process management, with unified construction and centralized management, to build scenario-based, information-based, full-process and butler-type services.

"Plan Z" is a brand-new manpower outsourcing service based on Jointforce. It uses Jointforce's vision to upgrade the traditional outsourcing model to meet the IT service needs of middle and long tail customers. "Plan Z" connects software vendors on the supply side (small outsourcing companies) and customers on the demand side, responds quickly to solve the problems of flexible employment from the enterprise and optimizes human resources, and precipitates outsourcing capabilities into human resources SaaS services. The Jointforce platform also plans to expand services such as IT management empowerment and bank credits.

Cloud Software Park uses Jointforce and Software Development Cloud as carriers to provide software services and cloud development tools for enterprises in the park. Through training and promotion, it empowers the enterprises in the park, promotes enterprises to use the cloud, and promotes the integration and development of software services on the cloud and the physical park. Cloud Software Park pushes online business opportunities to enterprises in the park through Jointforce, and helps companies in the park to get market promotion. It becomes a crowdsourcing platform that connects government, physical software parks, and IT service providers. Led by the Jointforce ecosystem, it attracts more small and medium-sized enterprises to open offline in a physical software park, which further greatly enhances the park's software ecosystem. In addition, there is a large demand for enterprise cloud adoption in the software park. Based on this demand and existing practices, the Company quickly built a professional team to build Huawei Cloud abilities such as consulting, incubation, enablement etc. and deployed the team to key areas such as Beijing, Shanghai, Fujian, and Shaanxi. The teams will quickly replicate the cooperation model of the "Industry Cloud + Huawei Cloud", and provide cloud-based professional services for enterprises in the park.

2. CORPORATE STRATEGY

In the wave of accelerated digital transformation, facing the increasing unfavorable conditions of external environment and increasing downward pressure of the economy, the Company maintained strategic determination, seized the opportunity for transformation and development, improved management and operation, continued to cultivate large customers (customers that can contribute over USD$100 million), consolidated the cornerstone business, which is mainly based on technical professional services and solutions, and accelerated the expansion of digital business represented by cloud intelligence. The Company will continue to use its domestic presence as base to expand globally, adhering to its ideology of "drawing the blueprint to the end".

- **For Large Customers: SD to Drive Business Development, Improve Quality, and Demonstrate Value**

  Technical professional services and solutions are the cornerstone business of the Company, and its revenues mainly come from long-term cooperation with strategic large customers such as Huawei, HSBC, Microsoft, Ping An, Tencent, Ali, Baidu, China Mobile, China Telecom, Bank of Communications and etc. When the business revenue exceeded RMB10 billion, the Company re-evaluated this mature business and set the goal to provide customers with more valuable and quality services. The Company has entered Huawei's "Supplier Development Plan" (SD) for more than a year, and has made considerable progress in business continuity, management capabilities, technical capabilities, process organization and construction, talents and innovation. The customers satisfaction rate continues to rise. In the future, the Company will continue to seize this excellent opportunity, use SD to drive the Company's business development, fully benchmark the SD system requirements, invest resources to make up for shortcomings, improve the Company's service quality and service value, and ultimately reach the industry-leading level.

- **Facing Middle and Long-Tail Customers: Transforming Business with Jointforce, Achieving Business Model Transformation and Upgrade**

  In recent years, the demand for IT outsourcing for middle and long tail customers has been increasing. The Company transformed the traditional cornerstone business with the idea of Jointforce, and promoted its transformation and upgrade to an Internet-based and platform-based innovative business. Through the implementation of the “Plan Z”, the Company launched a human resources service on Jointforce, using the Company’s accumulated outsourcing experience from recruitment process management, human resources delivery quality management to turn this into a SaaS service. Through this, Jointforce successfully gives its vendors different abilities to realize its needs. Lastly, the supply and demand side will meet through Jointforce, which not only solved the problem of flexible employment of suppliers and the optimization of idle resources, but also met the service needs of middle and long-tail customers.

- **Focusing on Cloud Native: Starting from Cloud Management Services, Creating a New Growth Potential for Full-Stack Cloud Intelligent Services**

  Cloud computation is the fastest-growing field in the IT industry in recent years. The industry supply chain continued to form and had became the foundation and accelerator for digital transformation. The Company increased investment in cloud business, combining with the Jointforce ecosystem, and built a full-stack service capability. At the IaaS level, the Company promotes in-depth cooperation with cloud service providers including Huawei Kunpeng Cloud, Microsoft Azure, and Tencent Cloud to consolidate and strengthen multi-cloud management service capabilities such as cloud consultation, cloud migration, professional implementation, and cloud operation and maintenance to create a base for digital business. At the PaaS level, based on industry services accumulation, the Company continued to build industry APaaS to better support itself and the ecosystem. Furthermore, based on 20 years of software engineering experience, the Company continued to build cloud-native application service capabilities such as DevOps and Jointforce ADM. At the SaaS level, the Company increased investment in product development and solution cloudification, strengthened the cloud management platform, and launched the “Cloud Integrative” service and scenario-based applications in financial, workplace, park, retail, and transportation industries, bringing the Company subscription-based revenue.

- **Break Through the Big Data Value-Add Bottleneck, Build New Momentum for Transformation and Upgrade, Be a Data Craftsman in the Age of Artificial Intelligence**

  The Company has built a cross-industry big data service capability advantage, established strategic partnerships with Internet leaders such as Baidu, and successfully implemented technology application scenarios such as AI, building an “end-to-end” service capability. In the future, the Company will continue to lead the transformation of big data technology and firmly implement the strategy of “focusing on the industry” and “deep cultivation solutions”. In leading industries such as finance, the Company will continue to expand cooperation and accelerate data platform planning and data service productization. Moreover, in high-growth industries including transportation, real estate, government etc., the Company will form solutions, replicate them, and grab market shares to become leaders in those industries. The Company will also accelerate the expansion of other high-potential customers in high-tech and manufacturing (automotive) industry. The Company will provide customers with comprehensive data services and decision support, help customers to build a solid enterprise-level data infrastructure, and realize new profits in the era of enterprise digitalization and artificial intelligence.

- **Jointforce Aggregates Resources, Empowers Enterprises, and Builds an Industrial Internet platform in the Software Development Field**

  Jointforce carries the new mission of high-quality development of the software industry, aiming to transform the software industry itself. Jointforce connects all parties of the ecological chain to a software industry Internet platform to solve many problems such as long software development cycle, large development volume, low code reuse rate, and resource mismatch between supply and demand side. Jointforce helps enterprises to realize efficient, cost efficient IT services. The Jointforce platform has been officially commercialized for four and a half years, forming a cloud ecosystem focused on software development. It has accumulated a large number of ecological resources, and the "Cloud Integrative" service launched for government IT has entered the stage of rapid replication. In the future, Jointforce will continue to improve its business model, form digital operation capabilities, accelerate the optimization of the service. Jointforce will integrate transactions, services and data to create an software development focused industrial Internet platform, build a new software industry ecosystem and open up a new digital economy "blue sea".

- **Follow the Trend of Globalization, Take advantage of the "Belt and Road" Initiative to Accelerate Global Blueprint and Achieve Leapfrog Development**

  The major development strategy of "Belt and Road" is essentially a systematic upgrade and output of urbanization experience with Chinese characteristics. It is a major strategic opportunity driven by multiple markets. Almost all the countries along the "Belt and Road" initiative have proposed their own national digital plans, which are used to integrate, drive and promote the urbanization process of each country. The digital "Belt and Road" is a huge business opportunity to form a comprehensive solution for "Digital China".

  The Company now has a number of Fortune 500 customers including Huawei, HSBC, Microsoft, GE, etc., and has provided information technology services to customers in 32 countries around the world and accumulated a lot of experience in serving international clients. Taking advantage of the digital "Belt and Road" tailwind, the Company will combine product and industry cooperation with Huawei to accelerate overseas development. Leveraging on global strategic centers in China, the United States, Mexico, Romania, Japan, India, Malaysia, etc., the Company will continue its global blueprint. In the future, it plans to build global centers in Russia, Egypt, etc. The Company will use cloud-driven digital transformation services to complete the basic global full-service layout, become a world-class ITS company, and build a global IT presence in China.

3. RECENT DEVELOPMENT HIGHLIGHTS

- The Company successfully passed the assessment of Huawei's Supplier Development Plan (SD) and moved towards a world-class supplier. According to the SD, the Company has set up 5 major project groups, formed and tackled 111 projects one by one. The Company has improved in 12 areas including business matching, cultural matching, project management, human resources, quality system, technical capabilities, innovation, risk management, competitive advantage, etc. Among them, five areas have been improved by more than 30% and are fully recognised by the customers. Driven by the SD, the Company has made great progress in business continuity, management capabilities, technical capabilities, process organization construction, talents and innovation.

- Jointforce has entered the stage of increased marketing and promotion. “Plan Z” has achieved initial success of cornerstone businesses transforming. “Cloud Integrative” service has signed new contracts in 10 cities across the country, serving a total of more than 2,400 informatization government projects, involving more than RMB1 billion in projects, continuing to provide service to more than 500 customers of government. Nanjing’ “Cloud Integrative” service operating results have been remarkable, and it has become an effective supplement to the government procurement model of Nanjing’s informatization projects, helping government saving its financial capital of more than 5%. There were 855 transactions in 2019 in Nanjing, involving a project value of RMB365 million yuan, covering more than 70% of the city’s IT projects, and the procurement efficiency was significantly improved. As of the end of 2019, the “Plan Z” has signed on over 700 suppliers, and the total amount of outsourcing for the entire year has exceeded RMB310 million, more than 300,000 resumes on the platform with 62% demand satisfaction. The product continues to strive, and the advantages and experiences accumulated in the outsourcing field are rapidly demonstrated to realize the core product capabilities of the SaaS service model.

- The Company’s full-stack cloud intelligent services continue to develop and grow rapidly. The Company actively introduced the cloud service experience of Catapult, a U.S. subsidiary, and the performance of cloud management services was outstanding. The cloud solution capabilities have reached a new level. In the report published by IDC in 2019 that revealed the 2018 Cloud Managed Services market share, the Company was ranked in the top 3. The Company received Huawei HCIP, Azure, and Tencent TCE certifications, with nearly 200 industry experts on board. The Company continued to deepen Huawei Cloud’s “sailing on the same boat” cooperation. With the help of Catapult’s cloud management service capabilities, the Company has launched a cloud management service platform in China to provide services and support for nearly a hundred Huawei cloud customers. At the same time, it has expanded the global market with Catapult in India, Mexico and other places. The Company received Huawei CSSP certification, and its cloud service capabilities on the PaaS layer have been greatly improved. Together with Huawei, it has developed a DevOps joint solution. The Company’s products and solutions such as smart retail, smart parks, smart customer service and data management are launched on Huawei “Selected Market”. The Company has obtained Huawei Cloud Tier 1 distributor status in key regions such as Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, and Shaanxi. The sales of middle and long-tail customers of Huawei Cloud achieved a 10-fold increase and is comprehensively ranked the first in Huawei’s ecological omni-channel. In the overseas market, the Company has partnered with Microsoft to successfully implement multiple Azure cloud application migration and Power Platform projects in Southeast Asia. In addition, Catapult’s business expanded to Canada, Central and South America and other regions based on the original US market. Revenue from subscription services grew rapidly, and revenue from “solutions as a service” hit a record high.

- Building together with Huawei, Kunpeng and HMS ecosystem reached remarkable results. Based on the cooperation on Kunpeng, the Company and Huawei have jointly created Kunpeng ecological full-stack service capabilities in professional services, joint solutions, joint laboratories, industrial cloud operations, and personnel training. It is the first batch of “Huawei Cloud Kunpeng Lingyun Partner Program” Ecological partners. The Company and Huawei Clound jointly created the Huawei Kunpeng Expert Migration Service. Currently, it covers more than 30 industry scenarios, and have completed the migration and implementation of more than 500 modules and contributed more than 400 implementations. The Company and Huawei jointly released the Kunpeng based Rail Transit Ticketing Cloud and to achieve Kunpeng compatibility test certification for multiple solutions. The Company cooperated with Huawei in Chongqing Kunpeng Computing Industry Ecological Operation Center, built Kunpeng laboratory, application system Kunpeng conversion platform, etc., and successfully set up Kunpeng Joint Innovation Lab and Artificial Intelligence Innovation Center in Xi'an and Chongqing, to make technical breakthroughs. The Company comprehensively reached, linked and enabled the software industry through the Jointforce platform, helping to grow the Kunpeng ecosystem. At the same time, the Company cooperated with Huawei to build the Kunpeng education ecosystem, established an intelligent joint innovation laboratory and a training base for smart talents, and cooperated with well-known universities such as Xiamen University and Fuzhou University to develop the Kunpeng curriculum which is targeted at government, enterprises, industry experts, and university leaders. Furthermore, the Company successfully held the Huawei Kunpeng Service Training in Shenzhen, Shaanxi, Fujian and other places. Based on the cooperation of HMS, the Company fully supported the research and development of 17 core functions in Huawei HMS Core 4.0, which is highly recognised by Huawei. In the future, it will continue to provide services for Huawei HMS upgrade and iteration to support the global ecological development of HMS.

- The Company's big data business continues to consolidate its existing advantages in the fields of transportation, manufacturing, finance, and government affairs. The industry solutions are continuously enriched, and data asset management products are increasingly perfected. The Company successfully completed the construction of the intelligent data center of Beijing Daxing International Airport, set the benchmark for domestic and global airport digitalization and data center construction, and further established the leading position of the Company's big data business in the field of airports and civil aviation. At the same time, the Company actively expanded in the railway and highway industry, providing customers with intelligent data platforms, master data governance, and business mid-stage application development services. Lastly, in the fields of transportation, manufacturing, real estate, government affairs and etc., the Company quickly replicated its success and won bids and recognition of multiple key projects.

- The Company's application of artificial intelligence technology has made significant breakthroughs in the field of pan-finance and the Internet and has been widely used in its Japanese business. In the field of pan-finance, the Company assisted customers in the implementation of technology strategy and business innovation, and successfully implemented a number of key projects such as smart mobile banking, smart anti-fraud, pocket bank AI steward, "AI account manager", "OMO empowerment", and OCR solutions. In addition, the Company's intelligent customer service, data asset management, and real-time anti-fraud products have passed Huawei Kunpeng and Gauss database compatibility test certifications, and have gained a wider market opportunity. In the Internet field, the Company signed a cooperation agreement with Baidu's intelligent autonomous driving business group, focusing on the application of AI technology in core application scenarios. The Company also became Baidu's top supplier for Du Xiaoman's voice annotation service. In the Japanese lines of business, the Company has continued to promote the intelligent character recognition (ICR) applications, and achieved more than 90% of business applications such as artificial intelligence technology innovation and ICR.

4. KEY ACCOMPLISHMENTS

- **Jointforce**

During the reporting period, Jointforce continued to innovate the traditional operation mode and optimized product functions and user experiences. At the time of writing this report, there are over 440,000 engineers, 27,000 service providers, and 59,000 contracting enterprises on the platform. The accumulated volume of job posted on the Jointforce platform has exceeded RMB5 billion. The Jointforce has also completed over 13,000 enterprises digital profiling. Based on its strong foundation, the Jointforce platform is undergoing a comprehensive upgrade for the customized software industry, working with government and enterprises to tackle the digital transformation market. Lastly, Jointforce has fully entered into the blue sea market of Internet IT outsourcing.

During the reporting period, the Jointforce platform continued to be optimized and upgraded, and new services were launched. Jointforce launched online advertising marketing to help customers achieve one-stop global communication. Jointforce continued to optimize AI big data intelligent recommendation system to version 4.0, improving accuracy by 5%, and increasing order conversion rate by 10%. Furthermore, Jointforce upgraded its platform user rules, and increased user activity by 40%. The online management of the project's entire life cycle has been comprehensively upgraded to further optimize the digital experience from project establishment, recruitment, execution, and acceptance. The Company launched a digital business platform, focusing on the three core fundaments of order, customer management, and users to continuously support business development. This improved management efficiency by 30%, and reduced staff costs by 40%. Jointforce launched the "Plan Z" service for the human resource outsourcing, and launched the entire LTC visual management process from "business opportunity management" to "settlement management", providing outsourcing service providers with demand management, CV analysis, job matching, performance attendance, online settlement and other manpower resource services, which are all core capabilities of SaaS product. As of the end of 2019, it has more than 700 suppliers and the total amount of the "Plan Z" has exceeded RMB310 million, more than 300,000 resumes on the platform with 62% demand satisfaction.

During the reporting period, Jointforce's "Cloud Integrative" service was launched in 10 cities including Chengdu, Chongqing, Wuhan, Jinan, and Changsha, totaling over 2,400 projects and over RMB1 billion. The operational results in Nanjing and Xi'an have exceeded expectation. In Nanjing, over 70% of the city's IT projects have been covered, and more than 90% of IT service project procurement has been covered. At the same time, the "Cloud Integrative" supervision model have been promoted effectively in Nanjing. With its offline + online innovative service model, it has served 40 projects with a total value of more than RMB100 million.

During the reporting period, Joinforce Cloud Software Park was adopted in Guangzhou, serving a total of 13 city software parks. Based on the cloud service model, all the online platforms of the park were completed. At the same time, the "three database and four platforms" function has been deployed in 7 parks.

During the reporting period, Jointforce launched extensive external cooperation and cooperated with AI big data companies such as Xiaoi I Robot and InnoTREE to jointly expand the field of intelligent open platforms. The Company cooperated with the China Software Industry Association to jointly build a service quality control and service credit system for the Chinese software industry. Furthermore, they built a big data platform centered on supplier credit, experts and solutions. Lastly, the Company signed strategic cooperation agreements with National Sports Intelligence and China Mobile IoT to deepen the cooperation in the field of national smart sports information services and Internet of Things.

- **Cloud**

During the reporting period, the Company used the Design Thinking (DT) method at the core and professional digital transformation consultation as the starting point. It dug deep into the customer's business pain points and successfully built end-to-end services from cloud consultation, cloud migration, cloud implementation, cloud development to cloud management. The Company developed industry solutions based on industry characteristics to build the company's future growth foundation for long-term profitability.

During the reporting period, the Company made significant breakthroughs in cloud management with the help of overseas Catapult's cloud service capabilities. The Company's Exchange and Oracle cloud development services, Huawei Cloud disaster recovery service and other solutions have entered the marketing and promotion stage, while consolidating the abilities to serve large customers. The Company completed project delivery for top dairy companies, communication tower infrastructure companies, and investment banks. Lastly, the cloud management service platform V1.0 was successfully launched, covering functions such as cloud management, cloud monitoring, cloud operation and maintenance, and cloud optimization, serving nearly a hundred Huawei Cloud customers, which can help enterprises reduce operating costs by nearly 30%.

During the reporting period, the Company's cloud products and cloud solutions capabilities significantly improved. In terms of cloud products, the enterprise cloud disk ranked fourth in sales of Huawei Cloud Marketplace. This product was launched in Huawei Cloud Marktplace International, and the Company is actively deploying this product in Thailand and Mexico. In terms of cloud solutions, the Company focused on existing vertical industry experience and general capabilities to create solutions including smart parks, smart retail, ticket cloud, enterprise cloud disk, digital office etc., among the smart park has entered Huawei Cloud Marketplace. The Company also released solutions in niche markets of industrial park and real estate park, and successfully won the bids of smart park projects such as Xiong'an and Yizhuang. Smart retail has also been deployed in Huawei Cloud Marketplace and has formed sales leads in tens of millions. In addition, the Company also worked with Huawei to create a "Huawei DevOps product + ChinaSoft DevOps service" joint solution. The Company completed the successful delivery of power technology research projects for top enterprise and achieve a huge breakthrough from 0 to 1.

During the reporting period, the Company cooperated with cloud service providers such as Huawei, Tencent and Microsoft to vigorously develop a multi-cloud ecosystem. Nearly 200 experts have been certified by Huawei HCIP, Tencent TCE, and Microsoft Azure. The Company became one of the first partners to join the "Huawei Kunpeng Cloud Partner Program" and jointly created a migration expert service with Huawei, which has covered more than 30 industry scenarios, migrated more than 500 modules, and contributed more than 400 best benchmarked technical practices. The Company jointly released rail transit ticket cloud based on Kunpeng with Huawei, and the solution passed Kunpeng's compatibility test certification. The Company established Kunpeng Joint Innovation Lab and Artificial Intelligence Innovation Center with Huawei in Xi'an and Chongqing to jointly make technological breakthroughs. The Company also set up Kunpeng Computing Industry Ecological Operation Center with Huawei in Chongqing, built Kunpeng Lab and application system, Kunpeng transformation platform, and provided local operation and maintenance and technical support services. In addition, the Company continued to deepen its cooperation with Huawei Cloud to become the gold cloud service provider of Huawei Cloud Services. It obtained Huawei Cloud Tier 1 distributor status in key areas such as Beijing and Shanghai and was awarded the "Best Partner Award", "Best Industrial Cooperation Award" and "Huawei Cloud Ecological Partner Award" in Jiangsu, Zhejiang, and Shanghai. The Company continued to deepen its cooperation with Tencent Cloud, and its cloud business and team size grew steadily, becoming the official regional authorized service center designated by Tencent Cloud. The Company expanded its cooperation with Microsoft Azure Cloud to build Azure cloud application migration and cloud solutions, and worked with Singapore power company Senoko Energy to develop Microsoft cloud application development projects. The Company became Singapore's local Microsoft PowerPlatform cloud application development partner.

- **Big Data**

  During the reporting period, the Company's big data business firmly followed the Company's innovation and transformation strategy, and further strengthened the Company's internal coordination and ecological cooperation. In transportation, manufacturing, real estate, government affairs, etc., the Company accelerated and replicated its competitive advantages to become the key driver in the Company's cloud and digital transformation strategy. The Company continued to invest in big data research and development, industry solutions, and to continuously improved its data asset management products.

  During the reporting period, the Company continued to explore new project opportunities and deepen customers cooperation based on its dominant brands in the financial big data engineering service market. In the field of banking, the Company continued to focus on joint-stock banks, city commercial banks, and rural commercial banks, and provided customers with data platform, data governance, risk and supervision and other solution services. The Company combined promising technologies including data platforms to guide the customers to undergo digital transformation. The Company has won multiple bids for bank customer projects, including data governance consulting for a "new first-tier city" commercial bank, pre-construction consulting of customer data platform for two medium-sized commercial bank customers, and optimization and construction of platforms, data marts, risk management, intelligent auditing and regulatory reporting applications for various large and medium-sized city banks and rural commercial banks. In the field of insurance, based on the Company's industry accumulation and customer cultivation, it provided customers with solutions and services such as insurance data center, data resource management, data governance and business data mining analysis, and successfully deployed and implemented multiple major customer projects.

In the field of securities, the Company maintained its leading position in data services and platform construction, actively expanded STAR Market and investment and financing businesses, reached strategic cooperation with customers, and explored data intelligent innovation models that supported the deep reform of China's capital market. Lastly, the Company continued to build and improve digital infrastructure for the industry's core institutional customers, developed industry regulatory data applications, and established industry benchmarks in cloud-based information service platforms and technology regulatory information platforms.

During the reporting period, the Company's big data business focused on the big transportation industry. It has been steadily working in many subdivisions such as airports, railways and highways, providing customers with intelligent data platforms, master data management, and business application development services, and gradually deploying solutions in areas with great digital potential. In the field of airports, the Company completed the industry-leading project of Beijing Daxing International Airport Intelligent Data Center, which established a brand position for the Company in the domestic airport digitalization and intelligent data center construction. In addition, as an extension of the data service value chain, it also won the bid for the Capital Airport Group Data Platform Design Consulting and the Western Airport Group Data Management Project. Data center projects at airports in Wuhan, Shanghai, Beijing and other regions have also been successfully deployed, providing engineering services and data operation services to customers in areas such as data center, data governance, and passenger services. In the field of railways and highways, the Company has formed a strategic cooperation intention with a large railway company in the southwest region in the field of new information technology, providing customers with services such as the construction of big data platforms, railway supply and demand data forecasting. At the same time, it won the bid for the master data governance project of a municipal highway development group to improve the internal management efficiency of the enterprise and realize the integration of industry and finance and optimization of user experience.

During the reporting period, the Company continued to consolidate its professional capabilities on the existing line of business, and through a proven and mature methodology, quickly replicated solutions in the manufacturing, real estate, government and public industries. In the manufacturing industry, the Company won the bid for a tobacco marketing big data platform project in one province and completed the first stage of implementation. This is the first project practice in the domestic tobacco industry to transform and upgrade from a traditional data center to a big data platform with a centralized platform. In addition, Sunny Optical's master data governance and Beiqi Foton Group's data governance projects were successfully deployed. In the real estate industry, based on the successful implementation of the Times China Data Standards Project, the Company has signed a number of master data projects including Beijing Shougang Real Estate. In the government and public industries, the cloud business of big data of government affairs has been carried out smoothly, and the construction of the core data platform of the "cloud service platform" of the Nanjing Municipal Government's Public Resource Trading Center has continued. In addition, the Company completed the Phase Two of the Changping Government Data Cloud Project. The Company won the bid for the second phase of the Beijing Municipal Card One Card Big Data Platform, which provides data support for Beijing-Tianjin-Hebei public transport integration and card national interconnection. Lastly, the Company won the bid of public security big data resource service center project for a prefecture-level city to further improve the police big data platform that the Company participated in the early stages.

During the reporting period, the Company participated in the 4.0 version of "Data Asset Management Practice White Paper" for cloud computation and big data of the China Academy of Information and Communications Technology. As a core member unit of the data management platform standard development group, it has been invited to participate in the development of the data asset management platform standard 2.0 of the Big Data Technology Promotion Committee of the China Communications Standards Association for many times. The Company's data asset management platform products successfully passed the annual inspection of big data products by the Ministry of Industry and of the Information and Communication Technology Academy.

- **Huawei**

During the reporting period, Huawei's business continued to expand and the Company actively assisted Kunpeng and HMS in building out the ecosystem. The Company signed the first Huawei Kunpeng Cloud Migration Framework Agreement, covering services such as chips, servers, operating systems, databases, big data, cloud services. Moreover, Huawei Cloud Official website is successfully launched. The Company participated in 17 out of 24 R&D processes of HMS Core 4.0 and is highly recognised by Huawei. In the future, it will continue to provide services for Huawei's HMS upgrade and support the global ecological development of HMS. The Company entered the list of core IT suppliers of Huawei Consumer Business Group (hereinafter referred to as CBG) and became the best supplier of Huawei CBG IT annual framework. The "Co-sell" model of the Company and Huawei had a breakthrough in the Latin American region, adding New Mexico business. At the same time the Company consolidated the Southern Asia and Eastern Asian market, and established overseas branches in Malaysia, Myanmar, India, and Hong Kong. In addition to traditional businesses, Huawei Cloud-based solutions have made breakthroughs in government, manufacturing, retail, and transportation industries.

During the reporting period, the Company, as the first batch of partners with whom Huawei has established credible operations, reliable technology, and credible information with, has jointly promoted the General Data Protection Regulation (GDPR) certification.

During the reporting period, the Company passed the Huawei's Supplier Development Plan (SD) evaluation, and the results were approved by the customers. Huawei's SD plan scores suppliers on 12 areas including business, culture, finance, relationship management, quality system, technology, risk management, and project management. The Company set up five major project groups around the SD plan, broken up to 111 projects and tackled each project one by one and saw improvement. The scores in five areas increased by more than 30%. The Company improved management and operation capabilities, strengthened the construction of organizational mechanisms, timely responded to internal and external changes, and maintained business continuity to help business development.

- **HSBC**

  During the reporting period, HSBC's business continued to develop steadily and its team size continued to grow. On the basis of maintaining the competitive advantages of digital transformation business delivery capabilities, it realized the transformation from traditional business to managed service model and implemented nearly 10 million managed service transformation projects.

  During the reporting period, the Company launched HSBC's next-generation digital commercial banking platform, serving hundreds of thousands of commercial banking customers. The Company expanded HSBC's retail business data in Asia Pacific and Greater Bay Area. Furthermore, the Company helped build a new generation of mobile banking credit card customization system Apollo, HSBC Personal Commercial Banking System RBB, HSBC Jade's new account features, and through the Design-Bid-Build (DBB) model, the Company realized customized development of commercial bank customers' foreign exchange trading systems. At the same time, the Company successfully launched several important projects. The Company released three updates of the HK HSBC mobile application, and the Trade Finance launched TT Customer Channel project for international trade guarantee business. A new application, which included new features such as fast payments, personal wealth management, and credit cards, was launched in China, USA, India, and Singapore. Lastly, the Company expanded its Hong Kong business to Hang Seng Bank and won the bid for the first fixed price (FP) project with a signed amount of nearly RMB10 million.

- **Financial Services and Banking**

  During the reporting period, the Company's financial and banking business has steadily improved, adding more than 20 customers, including domestic and foreign banks, private banks, non-financial institutions, and overseas financial institutions. At the same time, it has continued to promote technological innovation and provide customers with technological empowerment, model innovation and business upgrade.

  During the reporting period, the Company provided digital transformation solutions and professional services to many large state-owned banks and national joint-stock banks. In regional commercial banks, the Company provided planning and implementation of system distributed transformation, cloud reconfiguration, technology and business platform. In the fields of credit financing, payment clearing, credit cards, and risk management, the Company has implemented artificial intelligence, financial cloud services, and big data applications. For large financial groups and non-bank financial institutions, the Company has carried out project cooperation with a number of industry group companies including financial real estate, biomedicine, home appliance manufacturing, and securities services industries. The Company provided services in Huawei cloud platform. The services included cloud architecture design and development, application cloud migration, etc.

  During the reporting period, the Company maintained long-term cooperation with dozens of foreign bank customers in Europe, America, Japan, South Korea, Southeast Asia, Australia, etc., covering more than 90% of domestic foreign customer market. The Company carried out new project cooperation in the areas of network connection, TIPS, e-ticket and bill pool projects, supply chain, cross-border payment, credit reporting, regulatory risk control, etc. Lastly, the Company provided acquisition business for well-known banks in the world, and has completed the implementation of solutions in Singapore, Thailand, Indonesia and other places. This business is now being marketed and promoted to Vietnam, Malaysia and other regions.

During the reporting period, the Company continued to invest in R&D on hot market trends and actively carried out business innovation and product upgrades. Based on the Huawei Kunpeng platform and Gauss database platform, the Company completed the domestic adaptation of intelligent customer service, data asset management, and real-time anti-fraud products, and entered the Huawei solution product catalog. Furthermore, the Company enhanced customer business value in products and application scenarios such as electronic letters of credit, ticket payment, second discount, merchant cloud, equity points, asset security, etc. In the field of intelligent customer service, the Company used big data scenario speech training and speech recognition synthesis to achieve functions such as intelligent calling, automatic response, automatic collection, automatic marketing, and scene dialogue.

During the reporting period, the Company maintained leading position in the integrated supply chain finance solutions field. Among them, the Company's commercial factoring products will combine cloud services and customization. Financial card-based products continued to innovate along with the market demands, with features such as face applications, payment platforms, two-dimensional code industry applications, tokenization, and acquiring platforms continuously upgraded.

- **Insurance and Securities**

  During the reporting period, the Company's insurance business grew steadily, keeping pace with the optimization of the industrial structure and the construction of intelligent cores. It developed solutions in the areas of telemarketing brains, auto insurance pricing, and intelligent security, and successfully deployed in several large insurance institutions. The Company has won nearly one hundred projects, covering life insurance, property insurance, marketing channels, business intelligence, risk management, etc. One of the major insurance company's core insurance Internet platform projects used a distributed architecture to support cloud deployment. Its core individual insurance products are connected to this channel and became its main sales channel. At the same time, the Company won the bid for the data management and control system project, giving full play to the Company's data management and control solution capabilities, and comprehensively spreading from point to surface to the insurance industry's data management and control market. During the reporting period, the Company cooperated with Baidu in depth to jointly implement the auto insurance pricing auxiliary decision-making system project, using big data and advanced machine learning algorithms to enrich the auto insurance pricing risk factor pool and formed an intelligent auto insurance underwriting pricing tool. Lastly, the Company continued to expand its ODC business with AIA Insurance (Asia Pacific) and AIA Insurance (China), and has won bids for asset management platform solutions, smart audits, and big data platform upgrades.

  During the reporting period, the Company's securities business continued to maintain its leading position in terms of data and systems, extending from traditionally advantageous businesses to capital market monitoring, monitoring and service agencies. The Company's key projects included the launch of a new-generation market surveillance system and the integration of data from a monitoring center and the standard construction project. The Company played a role in public opinion, associated accounts, stock price manipulation, etc., and helped the stable and healthy development of capital markets. At the same time, the Company provided industry data standards and model consulting and design services, supporting the entire process of capital market and cross-market supervision, and helping the capital market service regulatory transformation. The Company entered into the futures market for the first time and won the bid for a big data supervision system platform, construction project of a large futures exchange, helping them to become the first domestic securities company to comply with the China Securities Regulatory Commission's Science and Technology Supervision 3.0 Concept. At the same time, the Company won the bid for the national stock transfer test service project in 2019 and explored the automated test service model. In addition, the Company, as a council member of the Fintech Industry Development Alliance, participated in the research and development of industry science and technology theories. As one of the main underwriters of the "People's Republic of China Financial Industry Standards-Securities and Futures Data Model", it participated in the supervision of science and technology and asset management research on topics such as artificial intelligence in the industry, and deeply participated in the preparation and application of securities and futures industry standards.

- **Telecommunications and Internet**

  During the reporting period, the Company relied on the strategic cooperation with China Mobile and China Telecom to become their core supplier and further expand to government and enterprise market.

  During the reporting period, the telecommunications business developed steadily, and the Company continued to work closely with its large customers. China Mobile's business layout continued to improve and expand, implementing the "5G +" plan. It plans to build out a new business system for government and corporate affairs and new business markets have become new growth drivers. Based on the experience of China Mobile's Suzhou R&D Center, Beijing Research Institute, Internet of Things, Internet, and Migu Company, the Company made new breakthroughs in Shanghai Industrial Research Institute, Xiong'an Industrial Research Institute, Government and Enterprise Branch, China Mobile All Access, and China Mobile Zhixing Hangzhou R&D Center. The Company successfully won important projects of China Mobile Internet, Beijing Research, and China Mobile Xiong'an Industrial Research Institute. Furthermore, the Company's China Telecom cooperation has expanded smoothly, becoming the largest supplier of Tianyi e-commerce. The Company expanded the business of the retail finance business unit, and further expanded the business shares of the customer management business group, consumer financial business group, O2O business group, and successfully won the bids of China Telecom Cloud Computing, China Telecom Electronic Channel Operation Center, China Telecom Integration Corporation, projects, and etc. Lastly, with the business capabilities accumulated in China Mobile and China Telecom, the Company continued to cooperate with customers such as Fenghuo, Dingqiao Communications, and Datang to make efforts in emerging areas such as the Internet of Things and cloud computation.

- **Internet (BAT)**

  During the reporting period, the Company continuously and steadily provided IT services to Internet companies such as Tencent, Ali, Baidu, etc., established deep cooperative relationships with customers, established competence centers, and developed solutions. Furthermore, the Company signed a strategic cooperation agreement with Tencent to coordinate and develop the B2B business market. The Company signed a strategic cooperation agreement with Baidu's intelligent driving business group to deepen cooperation in the areas of autonomous driving, smart cities, and data analysis to promote the implementation of AI technology.

During the reporting period, the Company's cooperation with Tencent was further deepened. Tencent's music business team has exceeded 100 people, and the audit business has also achieved breakthrough growth. It has won bids for all types of video and graphic games, WXG WeChat Mini Program, Youku Cantonese, WeChat Fun, and other projects. It has also won bids for Tencent Video overseas translation development project, Tencent game enterprise, WeChat test package project, Tencent high-precision map project, Tencent financial media project, etc. In order to deepen the cooperation with Tencent, the Company established two near-shore delivery centers in Shenzhen and put them into use, which was well welcomed by Tencent customers. At the same time, the construction of Shanghai Offshore Delivery Center began. During the cooperation period, the Company maintained the exclusive agent status in Tencent's Corporate Development Group (CDG) business for four consecutive years, and won the title of the top quality supplier of the year by Tencent's Interactive Entertainment Group (IEG), becoming its largest supplier. Lastly, in the Tencent Platform and Content Group (PCG) business, the Company's annual satisfaction survey received a good score of 10, successively becoming the only quality supplier and designated supplier of Lexin business, Weishi business and browser operation business.

During the reporting period, Ali's business continued to grow steadily. As of the writing of this report, the total number of Alibaba service personnel has exceeded thousands, covering Taobao, Tmall, New Retailing, Alibaba Cloud Intelligence, Ant Financial, Cainiao, and digital entertainment. The Company has also delivered the Alibaba Cloud Intelligence, elastic computing of basic product, IoT, data intelligence, etc. Lastly, the Company actively expanded its cooperation with Ali Semi conductors' "flat-headed brother".

During the reporting period, the Company and Baidu further deepened cooperation in core business areas such as searching, intelligent driving, Baidu cloud, and finance. The Group signed a joint construction cooperation agreement with Baidu's intelligent driving business group, focusing on the application of AI technology in core application scenarios, and achieved steady growth in business. Under the established competitive advantages, the Company has newly expanded the search and delivery business, with a team size of more than 100 people. It has successively won the bids of Baidu Cloud Yunyunzhi College and Cognitive Platform, Baidu Cloud Yunyunzhi College Commercialization Platform, Du Xiaoman Voice Annotation and Review, iQiyi Audiovisual and etc.

- **Hi-Technology**

  During the reporting period, the Company's Microsoft business grew steadily, and actively expanded into the domestic and overseas markets. In China, the Company closely followed the strategic direction of Microsoft. As a strategic partner of Microsoft Azure Cloud and Dynamics CRM, the Company has extended market cooperation with Microsoft to provide high-quality consulting and implementation services. In Hong Kong, the Company implemented the Microsoft Azure cloud migration project, began building cloud migration capabilities, deepened the cooperation model with Microsoft, and laid the foundation for expanding other customers based on Microsoft Azure. In Southeast Asia, the Company cooperated with Microsoft in Azure cloud application development, Power Platform, Bing, SharePoint, AI voice and other directions and implemented multiple cases to complete the PowerApps Silver Partner certification.

During the reporting period, the Company's Ping An's business grew rapidly and began to see results in the Ping An financial business. The Company assisted Ping An to explore artificial intelligence application scenarios in the financial field and completed business blueprint in the medical and education field. Furthermore, the Company deepened Ping An's financial business and assisted Ping An in advancing its "finance + technology" strategy. In banking, the Company assisted Ping An Retail Bank with its Open bank + AI bank strategy and successfully implemented a number of key projects such as smart mobile banking, smart anti-fraud, pocket bank AI steward, "AI account manager", and "OMO empowerment". The Company realized the planning and construction of a complete system service platform, customer group business scene mining, robot + manual labor service, data closed-loop monitoring, etc., and built a platform-based operating capability, supporting the mining of more business intentions and bringing them online. In insurance, the Company successfully won the bid for Ping An Group's data platform business project and Ping An Property & Casualty's "Voice Semantic Labeling" project. Through the implementation of the OneConnect, it consolidated solutions such as unified clearing and settlement platform, unified payment platform, and enterprise cloud architecture upgrade, providing capacity support for subsequent business expansion. In addition, it also won the bid for the Chengdu One Account Smart Financial Development Project to expand the virtual banking, direct sales banking, and mobile's banking projects. The company also won the bid for Ping An Micro Leasing Project four times in a row. The Company began to penetrate Ping An's medical business layout and achieved a breakthrough in the field of Ping An Smart Medical. The Company won the bid for the smart hospital management system project, independently completing project requirements analysis, UI design, project management, front-end and back-end development, testing, and operation and maintenance. Lastly, the Company, relied on the layout of the education industry and its accumulated knowledge, and successfully won the bid for the Smart Education Zhiniaozhi portal and the smart search project.

During the reporting period, the Company's BPO business grew rapidly and continued to expand at domestic and overseas market. In the domestic BPO market, the Company continued to expand its traditional operation support business, accelerate the expansion of data annotation, content auditing business, and explore potential BPO markets such as high-tech and finance on the basis of consolidating its advantages of the internet industry. The market share of the Company's data labeling business has continued to increase, and it has become the number one supplier of Alibaba map labeling business and a top supplier of Baidu's Xiaoman voice annotation business. In addition, the Company created natural language processing tools such as intelligent character recognition (ICR), automatic image processing and recognition, and text semantic analysis to promote data labeling work efficiency. With breakthroughs of content auditing business, the Company became the best cooperative supplier of Alibaba Cloud's record auditing business, and successfully won the Meituan security audit project. In terms of customers, in the leading Internet field, the Company continued to expand its cooperation with BAT, and accelerated industry replication, successfully expanding into industry leading customers including Meituan's Internet business and multiple Internet middle and long-tail customers. In high-tech, financial and other fields, the Company are constantly expanding new customers such as Ping An Technology and Zhuiyi Technology, and strive to create new advantageous industries. Furthermore, the Company achieved a breakthrough in the Japanese BPO business in the technology applied area, continued to promote the intelligent character recognition (ICR) applications. Through breakthroughs in recognition template technology, the average number of ICR entries is 70%, and the maximum number of entries is 93%. At the same time, the Company constantly improved its font training capability: the overall recognition accuracy is now more than 55%. Lastly, the Company won the bid for the shared platform project and the content distribution network (CDN) conversion project, and has started the NRI (Nomura Research Institute Japan) serverless DevOps development project. The Company also participated in the design of cloud architecture solutions for NEC's China Distribution Division.

During the reporting period, the Company's GE business has steadily improved. The Group completed the submission of the MVP3 (Minimum Viable Product) phase in the GE THINKING WORK platform IoT project. At the same time, the medical equipment support and maintenance business expanded, covering more than 20 provinces and cities in China. The Company has also increased the development of other GE businesses, achieved breakthroughs in the embedded automation test area of GE Aviation and Petroleum Business, and became its important IT service provider.

During the reporting period, the real estate ODC business grew rapidly, and a team was formed in Xi'an ODC. Mingyuan Real Estate's ODC business developed smoothly, the team headcount grew steadily, increasing the production capacity by 30%. The Company successfully won the bids for Longhu Real Estate, Xinghe, Time Real Estate, Agile Real Estate, Gaoxinxing Group, Chengdu Highway Design Institute, PricewaterhouseCoopers and other projects, and explored new cooperation models with leading real estate clients such as Vanke, Longhu, Blu-ray in the field of smart parks.

During the reporting period, the Company's SF Express business continued to expand, maintaining its exclusive supplier status in Beijing and Shenzhen. The Company cooperated with SF Tyson Holdings-Small and Micro Solution Center and successfully entered the SF pharmaceutical and cold transportation business fields. At the same time, The Company also expanded its business into two major areas of SF drones and intelligent hardware non-IT technology. SF's GIS business continued to expand outside Fengtu Wuhan and Fengtu Shenzhen into new cities, and started cooperation with Fengtu Technology in Chongqing.

- **Government**

  During the reporting period, the Company continued to cultivate government business. Among them, the audit information business continued to maintain the leading position in the market, and many breakthroughs were made in the corporate, national, and financial fields. The company's first cloud-based Guizhou project was successfully implemented.

  During the reporting period, the audit business continued to develop, and many projects were smoothly advanced. Product development was based on the concept of "business + technology", and it gradually transformed to a "platform product + business implementation" delivery model. In corporate auditing, the Company provided enterprises with audit compliance systems, information systems, supervision systems and information platforms, and completed audit projects for customers such as Railway Construction, Dongfeng Motor, Huaneng, Electronic Technology, BOE and other clients. In national auditing, the projects in Jiangxi and Zhongshan have passed the inspection and acceptance, and the projects in Qinghai Province have been successfully implemented. In financial auditing, the Company successfully signed the China Post Bank project, launched the Huaxia Bank project, and steadily advanced the Nanjing Bank project. In the field of financial risk, the Company provided market risk system and subsequent operation and maintenance services for banks and securities companies. During the reporting period, China Merchants Securities, Oriental Securities, Huatai Securities, Changsha Bank, Huarong Xiangjiang Bank, Yunnan Rural Credit and other market risk projects went online. In addition, the Company continued to operate and maintain China Development Bank and Haitong Securities projects. After the precipitation and polishing of multiple projects, the Company successfully developed and upgraded the national audit comprehensive audit analysis platform, bank version off-site audit analysis platform and bank version risk prevention and control platform.

During the reporting period, the Company's agricultural informatization business progressed smoothly. The Company won the bid for the Yunnan Province's Department of Ecological Environment Protection project, and completed the pilot project of docking the EIA and sewage permit in the country. Furthermore, the Company successfully completed the acceptance of the comprehensive animal husbandry information platform across the country, and completed the initial integration and sharing of 14 ministerial animal husbandry industry information systems. The breeding livestock and poultry production and operation license business system has completed seven provinces (regions) pilots, and is planned to be uniformly promoted and used throughout the country in 2020. Lastly, the Company cooperated with Guizhou on the cloud to steadily promote the use of big data platforms in the province, and provided big data support for the adjustment of the agricultural industrial structure in Guizhou.

During the reporting period, the Company continued to cultivate its leading position in the media sector. The Company provided solutions for new media integration and digital publishing for central and local media and newspaper industry. The Company provides innovative products for the English version of Xinhua News Agency. The English version of the media product production and content management project has been successfully completed, including production of micro-video, H5 and other media resources. In addition, the second phase of the project was constructed on the basis of the first phase of the visualization product of the Economic Daily News Agency.

During the reporting period, the Company's social security business steadily advanced. As one of the front-end vendors of the Ministry of Human Resources and Social Security, the Company successfully won the bid for the second phase of the Jinbao project, launched the online application for social insurance relationship transfer, and promoted the orderly construction of the second phase of fund supervision.

During the reporting period, the "Internet + Customs" integrated platform project progressed in an orderly manner, and the final inspection has been successfully completed. The smooth operation of the system effectively supports the efficient operation of customs operations and has been highly recognised by customers.

- **Manufacturing Logistics**

During the reporting period, the Company continued to cultivate its traditional manufacturing and logistic business with the continuous innovation of emerging technologies such as cloud and big data, the Company helped the industry to achieve digital transformation. In terms of cloud capabilities, the Company created the first tobacco industry-based supply chain cloud management platform for distribution and other microservices. In order to lay the foundation for the batch management of the supply chain of the factory, the Company is gradually promoting the construction of a supply chain cloud management platform in a certain province. In terms of data capabilities, the company successfully won a provincial tobacco marketing big data platform project. This is the first time used a central data platform methodology, marking the beginning of the industry's transition. In the industrial field, the Company won the bid for a MES system construction project of a cigarette factory on the basis of maintaining its market leading advantage, and opened up new businesses. At the same time, the Company continuously optimized the Smart Manufacturing Execution System (S.MES) platform, and innovated in intelligent production simulation and process quality intelligent management and control. In the agricultural field, all the implementation and promotion projects of the national industry procurement regulation supervision platform have been launched, achieving a breakthrough in procurement business.

During the reporting period, the Company's new retail business continued to innovate. The Company achieved breakthrough in strategic cooperation with Huawei Cloud in the field of new retail, and became a Huawei Cloud Retail Integrator. The Company's new retail system has entered the Huawei Cloud Mall's carefully selected solutions, and is sold in two versions: SaaS or customized solutions. At the same time, the Company cooperated with Huawei to design new retail solutions and new retail business-oriented platforms in the field of circulation and logistics, and cooperated in depth in AI technology areas such as face recognition, image recognition, model training, etc., to provide complete new retail solutions. This solution penetrated the wine, clothing, footwear and food sub-sectors, and have completed pilot projects in Guangdong, Shaanxi and Fujian. The Company is now actively pushing this into new markets including Hunan and Anhui.

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

During the reporting period, in line with the Company's digital transformation strategy, the Company's transportation business continued to innovate. With the advantage of big data, the Company's aviation business has expanded to more customers in the same industry. Furthermore, its EPMS, an overseas energy product, has been recognised by Gartner.

During the reporting period, the Company's transportation business developed steadily, adhering to the Company's innovative transformation strategy, consolidated its products and solutions. The Company cooperated with Huawei to jointly release the rail transit ticketing cloud service products based on Kunpeng, and successfully won the Luoyang Rail Transit Line 1 project. The Company continued to improve its rail transportation business through the application of face recognition, NFC, two-dimensional code, Bluetooth and other technologies. The Company successfully won the bid and implemented a number of rail transit clearance systems, Internet ticketing platforms, and application of the two-dimensional code of the line network, including Changsha rail transit, Jinan rail transit, Changchun rail transit, Jinhua-Yiwu-Dongyang rail transit, Qingdao Metro, Chengdu Metro and Lanzhou Metro, etc. Lastly, the Company broke through the field of smart ports and successfully won the bid of Qingdao Port Group Smart Port Project.

During the reporting period, the Company made significant progress in the field of civil aviation informatization, building end-to-end service capabilities in the field of big data for smart airports. In the field of smart airport big data consulting, it successfully acquired customers including Capital Airport Group, Guangxi Airport Group and Zhengzhou Xinzheng Airport. In addition, Daxing Airport Wuhan Tianhe Airport and Shanghai Airport also successfully passed the inspection, making these as benchmarked projects. Lastly, major safety supervision projects of the Civil Aviation Administration, flight standard supervision and management systems, and national administrative law enforcement projects have been deployed nationwide and start the training programme, further strengthening the Company's leading position in aviation safety supervision.

During the reporting period, the Company's energy business progressed steadily. The Company successfully completed the delivery of the electric power AMI project in the capital of a Southeast Asian country. In product research and development, the Company completed the deployment test of the power marketing solution on the public cloud, and conducted joint debugging with well-known meter manufacturers. Lastly, the Company's power product, EPMS, successfully entered into Gartner's Meter Data Management and "Utility Customer Information System" Market Guide reports.

- **Catapult**

  During the reporting period, Catapult's subscription service revenue grew rapidly, continued to deepen its cooperation with Microsoft, and expanded its business to Canada, Central and South America, while continuously imported its overseas cloud service capabilities into China, helping enterprises achieve digital transformation. In terms of independent research and development, Fuse, the largest "solution as a service" of Catapult, reached a strategic partnership with Valo Intranet, integrating Fuse solutions with Valo Intranet platform to better provide customers with office 365 products and support services. Spyglass, the second largest solution-as-a-service of Catapult, helping companies to streamline IT security and compliance processes, gained market recognition, and achieved breakthrough in revenue. In terms of information technology service, Catapult launched cloud voice services to provide integration and end-to-end support for Microsoft voice technology. In addition, Catapult also helped customers modernize communications through Microsoft Teams and Enterprise Edition Skype to replace users' PBX. During the reporting period, Catapult was awarded the "PowerApps Partner of the Year" and "Modern Office Workplace-Security and Compliance Partner" by Microsoft. It was also honored as the "Modern Desktop Partner" and "Power BI Partner" of the year. Lastly, Catapult also won the Eagle Plaque Award for its success with new Microsoft Dynamics customers.

- **Training (ETC) Business**

  ETC is one of the top IT training organizations in China. Along with different universities, they created industry academies to provide IT training. Currently, ETC has established talent training and practical training cooperation with more than 1,000 colleges and universities and has accumulated more than 300,000 qualified employees for the industry. At the same time, it has built a talent training base with a total area of over 40,000 square meters and can accommodate more than 20,000 students.

During the reporting period, ETC acquired the online education brand "Futurelab" and introduced high-quality resources such as discipline competitions, online training, talent assessment, job qualification certification, artificial intelligence laboratories, etc., forming an online to offline ecosystem. At the same time, it held more than 4,000 college competitions and more than 200 tour lectures, including the "Future Cup AI College Challenge", covering more than 4 million outstanding students in colleges and universities. Furthermore, ETC cooperated with Huawei to build the Kunpeng education ecosystem, established a training base for smart talents, and cooperated with Xiamen University, Fuzhou University, Northwestern Polytechnical University and other well-known universities to develop Kunpeng courses. C-level members of universities, and senior technical experts for government and enterprises have successfully participated in held Huawei Yunpeng Pengyun service training in Shenzhen, Shaanxi, Fujian, Henan and other places. In addition, the Company established a government and enterprise service business group to provide the government with one-stop talent services, including enterprise internal training, corporate talents, and parks, and established an innovative talent service mechanism from scouting to training. It has signed contracts with 8 cities including Shanghai, Guangzhou, and Chongqing to provide support for the development of local digital economy industries.

During the reporting period, the Company was awarded the 2019 China Digital Service and Service Outsourcing Leading Enterprise (Top 100 Enterprises, Talent Innovation Demonstration Bases, Talent Training Leading Institutions), and also won the first batch of four national ministries and commissions (NDRC, SASAC, Ministry of Industry and Information Technology, Ministry of Education) national occupations, becoming a national designated teacher training enterprise.

In 2019, the Group's businesses achieved steady growths. The revenue, service revenue, profit, profit attributable to the owners of the Company and basic EPS increased by 13.8%, 12.6%, 5.7%, 5.5%, 4.0% YoY respectively.

	2019 RMB'000	2018 RMB'000	% Increase (decrease) over the same period last year
Revenue	**12,041,895**	10,585,013	13.8%
Service revenue	**11,636,730**	10,339,012	12.6%
Profit for the year	**756,686**	716,171	5.7%
Profit for the year attributable to owners of the Company	**754,888**	715,803	5.5%
Basic earnings per share (cents)	**30.71**	29.54	4.0%

KEY OPERATING DATA:

	2019 RMB'000	2018 RMB'000	% Increase (decrease) over the same period last year
Revenue	**12,041,895**	10,585,013	13.8%
Service revenue	**11,636,730**	10,339,012	12.6%
Cost of sales and services	**(8,458,802)**	(7,340,356)	15.2%
Gross profit	**3,583,093**	3,244,657	10.4%
Other income	**177,811**	64,078	177.5%
Loss from derecognition of financial assets measured at amortised cost	**(4,544)**	(7,139)	(36.3%)
Impairment losses, under expected credit loss model, net of reversal	**(74,812)**	(35,200)	112.5%
Impairment loss on goodwill	**(35,760)**	–	N/A
Other gains or losses	**849**	(5,669)	(115.0%)
Selling and distribution costs	**(617,554)**	(495,524)	24.6%
Administrative expenses	**(1,195,874)**	(1,091,148)	9.6%
Research and development costs	**(808,949)**	(739,434)	9.4%
Other expenses	**(58,929)**	(68,402)	(13.8%)
Finance costs	**(166,045)**	(117,987)	40.7%
Share of results of investments accounted for using the equity method	**(328)**	12,222	(102.7%)
Profit before taxation	**798,958**	760,454	5.1%
Income tax expense	**(42,272)**	(44,283)	(4.5%)
Profit for the year	**756,686**	716,171	5.7%
Profit for the year attributable to owners of the Company	**754,888**	715,803	5.5%
Basic earnings per share (cents)	**30.71**	29.54	4.0%

GENERAL OVERVIEW

In the battle of 2019, facing the increasing unfavorable conditions of external environment and increasing downward

CUSTOMERS

The Company's customers include large enterprises with headquarters in the Greater China region, Europe, American and Japan. In the Chinese market, the Company holds a larger market share in telecommunication, banking, financial, government, internet, and high technologies. In 2019, the top five and ten customers accounted for 71.1% and 75.8% of the Company's service revenue.

In 2019, the Company has 1,911 active customers and 124 large customers (contributed to more than RMB6 million of service revenue within the past 12 months).

MARKET

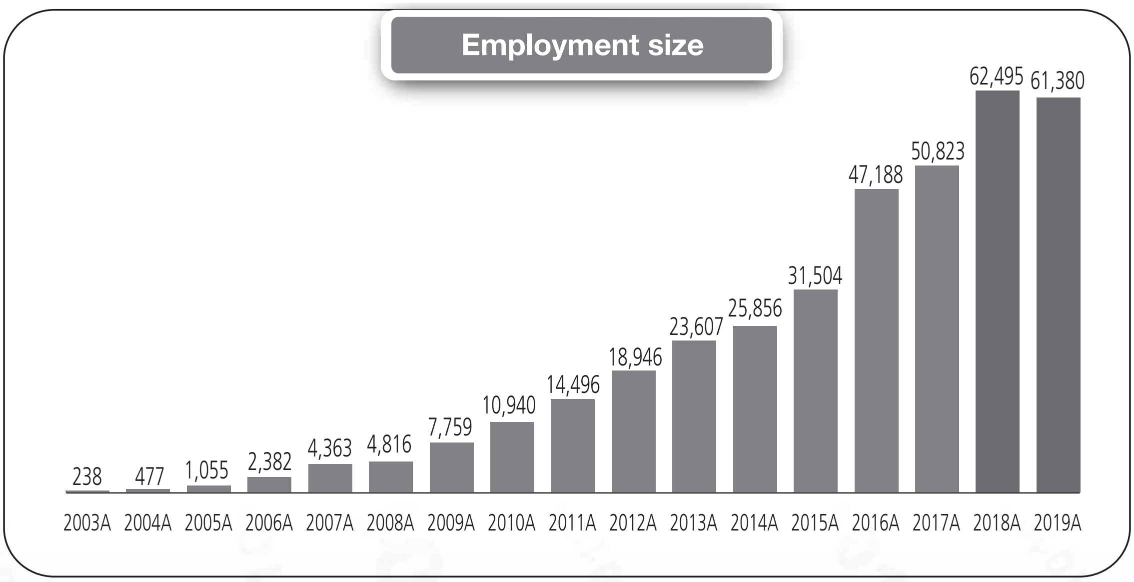
During the reporting period, the Company's main businesses were concentrated in the Greater China region. The huge market potential in the Greater China region continued to bring growth opportunities for the Company. The Company provides ITS to customers from 32 countries and a number of Top 500 companies, such as Huawei, HSBC, Microsoft, GE etc. in the world, accumulating experiences in services in servicing international customers. Going with the "Belt and Road" initiative, the Company will combine and increase its cooperation with Huawei's products and industries to accelerate its global layout. The Company will leverage its existing strategic centers in China, United States of America, Mexico, Japan, India, and Malaysia to broaden cooperation and improve its blueprint. The Company will utilize cloud driven digitalization services to promote global servicing layout, become a world class ITS enterprise, and establish China's influence in the global IT market.

HUMAN RESOURCES

As of the end of 2019, the Company has a total of 61,380 employees, representing a YoY decrease of 1.8% (2018: 62,495). During the reporting period, the average employee headcount was 61,938, representing a YoY increase of 9.3% (2018: 56,659).

As of the end of 2019, the Company employed 58,646 technical staffs, accounting for 95.5% of the total employee headcount. Of which, 20,862 technical staffs are project managers, consultants, and senior engineers, accounting for 35.6% of the total technical staffs.

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



OPERATING RESULTS

The Group's consolidated income statements in 2018 and 2019 are as follow:

	2019 RMB'000	Percentage of revenue	Percentage of service revenue	2018 RMB'000	Percentage of revenue	Percentage of service revenue
Revenue	12,041,895	N/A	N/A	10,585,013	N/A	N/A
Service revenue	11,636,730	N/A	N/A	10,339,012	N/A	N/A
Cost of sales and services	(8,458,802)	(70.2%)	(72.7%)	(7,340,356)	(69.3%)	(71.0%)
Gross profit	3,583,093	29.8%	30.8%	3,244,657	30.7%	31.4%
Other income	177,811	1.5%	1.5%	64,078	0.6%	0.6%
Loss from derecognition of financial assets measured at amortised cost	(4,544)	(0.0%)	(0.0%)	(7,139)	(0.1%)	(0.1%)
Impairment losses, under expected credit loss model, net of reversal	(74,812)	(0.6%)	(0.6%)	(35,200)	(0.3%)	(0.3%)
Impairment loss on goodwill	(35,760)	(0.3%)	(0.3%)	–	0.0%	0.0%
Other gains or losses	849	0.0%	0.0%	(5,669)	(0.1%)	(0.1%)
Selling and distribution costs	(617,554)	(5.1%)	(5.3%)	(495,524)	(4.7%)	(4.8%)
Administrative expenses	(1,195,874)	(9.9%)	(10.3%)	(1,091,148)	(10.3%)	(10.6%)
Research and development costs	(808,949)	(6.7%)	(7.0%)	(739,434)	(7.0%)	(7.2%)
Other expenses	(58,929)	(0.5%)	(0.5%)	(68,402)	(0.6%)	(0.7%)
Finance costs	(166,045)	(1.4%)	(1.4%)	(117,987)	(1.1%)	(1.1%)
Share of results of investments accounted for using the equity method	(328)	(0.0%)	(0.0%)	12,222	0.1%	0.1%
Profit before taxation	798,958	6.6%	6.9%	760,454	7.2%	7.4%
Income tax expense	(42,272)	(0.4%)	(0.4%)	(44,283)	(0.4%)	(0.4%)
Profit for the year	756,686	6.3%	6.5%	716,171	6.8%	6.9%
Profit for the year attributable to owners of the Company	754,888	6.3%	6.5%	715,803	6.8%	6.9%

REVENUE

In 2019, the Company's revenue was RMB12,041.895 million (2018: RMB10,585.013 million), representing a YoY growth of 13.8%. The Company's service revenue was RMB11,636.730 million (2018: RMB10,339.012 million), representing a YoY growth of 12.6%. The growth mainly came from steady increase from existing large customers and the high growth of cloud products, services from the Cloud Intelligence Group.

TPG and IIG's revenue and proportion of total revenue in 2019 are as follow:

	2019 RMB'000	**Weight**	2018 RMB'000	Weight	Growth Rate
TPG	**10,458,258**	**86.8%**	9,174,855	86.7%	14.0%
IIG	**1,583,637**	**13.2%**	1,410,158	13.3%	12.3%
Total	**12,041,895**	**100%**	10,585,013	100%	13.8%

COST OF SALES AND SERVICES

In 2019, the Company's cost of sales and services was RMB8,458.802million (2018: RMB7,340.356 million), representing a YoY growth of 15.2%. In 2019, the Company's cost of sale and services accounted for 70.2% of revenue (2018: 69.3%), representing a YoY increase of 0.9%.

GROSS PROFIT

In 2019, the Company's gross profit was RMB3,583.093 million (2018: RMB3,244.657 million) representing a YoY increase of 10.4%. The Company's gross profit margin was 29.8% (2018: 30.7%), representing a YoY decrease of 0.9%. The Company's gross profit margin (to service revenue) was 30.8% (2018: 31.4%), representing a YoY decrease of 0.6%. The main reason for the decrease in gross profit margin is due to the fluctuation of personnel in the Huawei lines of business during the reporting period, resulting in an increase in labor costs.

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

1. Continue to increase businesses with high gross margins and high per capita output, increase research and development investment in cloud products and tools, cloud solutions, and cloud native professional services, consolidate IP, integrate ecosystems, accelerate the construction of full-stack cloud smart services, and increase the proportions of smart cloud services such as cloud products and cloud services and continue to improve business models.

2. Continuously improve the Company's service quality and service value through the supplier development program.

3. Start a flexible human resources management program, allocate staff more reasonably, and improve staff efficiency.

OTHER INCOME

In 2019, the Company's other income was RMB177.811 million (2018: RMB64.078 million), representing a YoY increase of 177.5%. The increase is mainly due to the impact of the VAT input tax deduction policy during the reporting period and the increase in government subsidies compared to the same period last year.

OTHER GAINS OR LOSSES

In 2019, the Company's other gains was RMB0.849 million (2018: RMB5.669 million). This was mainly due to the fluctuation of exchange rate between US dollar and Hong Kong dollar against RMB.

OPERATING EXPENSES

In 2019, the Company's selling and distribution expenses were RMB617.554 million (2018: RMB495.524 million), representing a YoY increase of 24.6%. The Company's selling and distribution expenses accounted for 5.1% of the revenue, representing a YoY increase of 0.4% (2018: 4.7%). This is mainly due to the increase of labor cost for sales and promotion personnel during the reporting period.

In 2019, the Company's administrative expenses were RMB1,195.874 million (2018: RMB1,091.148 million), representing a YoY increase of 9.6%. The Company's administrative expenses accounted for 9.9% of the revenue, representing a YoY decrease of 0.4% (2018: 10.3%). This is mainly due to the Group's increased management efficiency.

In 2019, the Company's research and development (R&D) expenses were RMB808.949 million (2018: RMB739.434 million), representing a YoY increase of 9.4%. This is mainly because the Company continued to increase R&D investment in cloud intelligent business during the reporting period, which further increased the total R&D expense. The Company's R&D expenses accounted for 6.7% of the revenue, representing a YoY decrease of 0.3% (2018: 7.0%).

FINANCIAL COSTS AND INCOME TAX

In 2019, the Company's finance costs were RMB166.045 million (2018: RMB117.987 million), representing a YoY increase of 40.7%. The Company's finance costs accounted for 1.4% of the revenue, representing a YoY increase of 0.3% (2018: 1.1%). The increase in financial expenses was mainly due to the Company's adjustment of its fund management strategy and strengthening of its capital reserves. During the reporting period, the Company's bank loans increased, resulting in an increase in interest expenses; on the other hand, it was due to the application of the new lease standard on 1 January 2019 to increase lease due to interest on liabilities.

In 2019, the Company's loss from derecognition of financial assets measured at amortised cost was RMB4.544 million (2018: RMB7.139 million), representing a YoY decrease of 36.3%.

In 2019, the Company's income tax was RMB42.272 million (2018: RMB44.283 million), representing a YoY decrease of 4.5%. The Company's effective income tax rate accounted for 5.3% (2018: 5.8%), representing a YoY decrease of 0.5%. The decrease in income tax was mainly due to the impact of preferential tax policies and additional deductions for research and development during the reporting period. In general, the basic tax rate will be stable in the future.

OTHER NON-CASH EXPENSES

In 2019, the Company's other expenses were RMB58.929 million (2018: RMB68.402 million), representing a YoY decrease of 13.8%. The Company's other expenses accounted for 0.5% of revenue, representing a YoY decrease of 0.1% (2018: 0.6%).

In 2019, the Company's impairment loss, under expected credit loss model, net of reversal was RMB74.812 million (2018: 35.200 million), representing a YoY increase of 112.5%. This was mainly due to the prudent principle during the reporting period, the Company further increased the provision for bad debts.

In 2019, the Company's impairment loss on goodwill was RMB35.760 million, this was mainly due to the Group's provision for impairment of goodwill on assets acquired in the previous period.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE (EPS)

In 2019, the Company's profit for the year was RMB756.686 million (2018: RMB716.171 million), representing a YoY increase of 5.7%. The Company's profit accounted for 6.3% of the revenue, representing a YoY decrease of 0.5% (2018: 6.8%). The Company's profit accounted for 6.5% of the service revenue, representing a YoY decrease of 0.4% (2018: 6.9%).

In 2019, the Company's profit for the year attributable to the owners of the Company was RMB754.888 million (2018: RMB715.803 million), representing a YoY increase of 5.5%.

Based on the profit for the year attributable to the owners of the Company, the Company's EPS was RMB30.71 cents (2018: RMB29.54 cents), representing a YoY increase of 4.0%.

SEGMENT REVENUE AND RESULTS

In 2019, the segment's growth of revenue and results are as follow:

	Revenue			Results		
	2019 RMB'000	2018 RMB'000	Growth Rate	**2019 RMB'000**	2018 RMB'000	Growth Rate
TPG	**10,458,258**	9,174,855	14.0%	**891,035**	795,281	12.0%
IIG	**1,583,637**	1,410,158	12.3%	**97,645**	133,064	(26.6%)
Total	**12,041,895**	10,585,013	13.8%	**988,680**	928,345	6.5%

In terms of segment revenue, TPG's revenue achieved a YoY growth of 14.0%, the main contribution to this growth came from the growth of large core customers including Huawei, Tencent, Ali, Ping An, and etc. IIG's revenue achieved a YoY growth of 12.3%. The main contribution for this growth came from the fast growth of Jointforce's Plan Z.

In terms of segment results, TPG's result achieved a YoY growth of 12.0%, lower than that of the revenue growth, this is mainly due to the decrease of gross profit margin of Huawei business line during the period, IIG's result has a YOY decrease of 26.6%, this is mainly due to the Group increased R&D input during the period.

The Group believes that after years of building foundations for cloud intelligent business, it is ready to enter into a fast growth and expansion phase, which will continuously provide the drive for the Group's revenue growth and increase the Group's profit margin.

FUNDRAISING ACTIVITIES

During the current and last reporting period, no fund raising activities had been conducted by the Group. The details of the fund raising activity which had been conducted by the Group with unused proceeds is summarized as below:

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

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

Net proceeds allocation	Intended use of the proceeds	Actual use of the proceeds	The amount of the remaining net proceeds as at 31 December 2019 for the intended use	Expected time of utilisation (Note)
Approximately HK$600 million	For mergers and acquisitions and establishing an M&A fund to upgrade new technological capability and strengthen the ecological construction of the cloud services;	(i) Approximately HK$43 million were used to upgrade new technological capability; (ii) Approximately HK$100 million were used for merger and acquisitions and establishing an M & A fund to invest in proprietary and reliable business, cloud computing, big data, artificial intelligent, and related industries and associate companies;	Approximately HK$457 million to be used for merger and acquisitions and establishing an M & A fund to invest in proprietary and reliable business, cloud computing, big data, artificial intelligent, and related industries and associate companies.	Before 31 December 2020

Net proceeds allocation	Intended use of the proceeds	Actual use of the proceeds	The amount of the remaining net proceeds as at 31 December 2019 for the intended use	Expected time of utilisation (Note)
Approximately HK$100 million	For upgrading the Jointforce to forge a comprehensive platform for the IT industry chain	Approximately HK$100 million were used for upgrading the Jointforce to forge a comprehensive platform for the IT industry chain	–	–
Approximately HK$200 million	For replenishing the Company's working capital and repaying certain bank loans with relatively higher interest rates	Approximately HK$200 million were used for replenishing the Company's working capital and repaying certain bank loans with relatively higher interest rates	–	–

Note: The expected time frame for fully applying the unutilised proceeds is based on the best estimation of the future market conditions and strategic development made by the Group, which may be subject to changes and adjustments based on the future development of market conditions.

As at 31 December 2019, a maximum number of 180,000,000 ordinary shares will be allotted and issued upon full conversion of 2017 CN at the initial conversion price of HK$5.00 per conversion share.

A. CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Group has complied with the CG Code from 1 January 2019 to 31 December 2019, except that (i) the roles of chairman and chief executive officer were performed by the same individual. The Board believes that by holding both roles, Dr. Chen Yuhong will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group. (deviated from code provision A.2.1 of the CG Code); (ii) independent non-executive Directors and other non-executive Directors, as equal Board members should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors and non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 20 May 2019 (the "2018 AGM") due to their respective business engagement. Other Board members who attended the 2018 AGM were available to answer questions to ensure effective communication with the shareholders (deviated from code provision A.6.7 of the CG Code).

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

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules relating to dealings in securities. In response to a specific enquiry by the Company, the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

C. BOARD OF DIRECTORS

1. *Composition of the Board of Directors*

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

Executive directors:

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

Non-executive directors:

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

Independent non-executive directors:

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

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

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

2. *Meetings and Board Practices*

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

During the year ended 31 December 2019, the Board held 4 regular board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance records of the board meetings and general meetings held are set out below:

	Attended/ Number of regular board meetings held	Attended/ Number of general meetings held during the year
Executive Directors		
Dr. Chen Yuhong	4/4	1/1
Dr. Tang Zhenming	4/4	1/1
Non-executive Directors		
Dr. Zhang Yaqin	4/4	0/1
Mr. Gao Liangyu	4/4	0/1
Mrs. Gavirella Schuster	4/4	0/1
Independent Non-executive Directors		
Mr. Zeng Zhijie	4/4	0/1
Dr. Lai Guanrong	4/4	0/1
Professor Mo Lai Lan	4/4	1/1

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.

During the Reporting Period, the Group, focusing on staff development and corporate culture building, has organized several large-scale events nationwide, for the purpose of enhancing team cohesion, highlighting cultural care, motivating employees' enthusiasm and strengthening our brand influence. These events include but not limited to the following:

"Wait for an opportunity to rise while accumulating strength" – a party of the Chinasoft family

In 2019, the Chinasoft International JointForce Carnival was held simultaneously in 9 cities across the country. Our customers, the ecological partners of the JointForce Cup, outstanding employee representatives and the management of the Company gathered in the capacity of friends and family members to review the outstanding achievements in 2018, and look forward to 2019 in which difficulties and opportunities coexisted. The outstanding employees and working teams were recognised and commended, the future development direction was clarified, and the employees were guided to enhance their organizational capability, creativity and willpower.

"Sharing family times, and working together to achieve the corporate vision" – Chinasoft's Family Day

In 2019, the Group organized Chinasoft International Family Days in a number of places by building a platform for the exchange and communication among enterprises, employees and their families. Together, they shared the mental experience of Chinasoft's international people, and thanked their families for their understanding and support. With the exuberant activities, all participants felt the happiness and warmth of the family and the care of the Group for the employees, and thus enhancing the employees' sense of belonging, pride and responsibilities.

"Worry-free environment for strivers" – the launch of Chinasoft International Childcare Center

In 2019, the Group set up a pilot childcare center for its employees in Shenzhen, which is open free of charge for the children of the right age of ChinaSoft International's employees. With people-oriented and professional services, it creates a healthy growing space for the children and provides those who are fighting for their goals with a worry-free environment in which they can develop. The "Striver-oriented" concept is a corporate cultural heritage and a core value of human resources management. The Group is eager to help tackle the difficulties encountered by the employees, especially the two-job families, in striking a balance between work and family. Since its establishment, the childcare center has been receiving enthusiastic responses from the employees at all levels, with improved employees' cohesion and sense of belongings. Subsequently, the Group will further adjust and improve the childcare center in accordance with business planning, by gradually extending the service hours and scale of coverage, and gradually expanding pilot operations to other regions.

B2 Health & Safety

By adhering to the principle of "taking prevention as the major approach and prioritize precautions over contingencies", the Group always takes the physical and mental health and safety of employees as the first priority. To this end, the Company is committed to creating a healthy and comfortable working environment for its employees. During the Reporting Period, it renovated and remodeled the main office premises in major cities across the country, by purchasing additional office and conference facilities according to actual needs, increasing the supply of direct drinking water and hot water and improving the washroom environment and the illumination in offices. It also improved indoor air quality consistently by increasing the coverage and replacement frequency of green plants, and disinfected and cleaned the office space on a regular basis to reduce the risk of virus spreading. Seeing the importance of physical and mental health of employees, the Group organized psychological assessments for candidates, employee forums and content-rich EHS 3+1 activities to create a harmonious and caring corporate atmosphere. In order to prevent occupational diseases and protect occupational health of laborers, the Group organized medical examinations for employees and conducted prevention and management of occupational diseases for employees of special types of jobs during the Reporting Period. The Group provided supplementary commercial insurance benefits for employees with service period of three years or more, including supplementary medical, critical illness, accidental injury and life insurance coverages, paying a total of more than RMB3.28 million for the employees and benefiting 16,769 employees. For employees with service period less than three years, the Group provides the means to purchase supplementary commercial insurances at prices much lower than the market price, benefiting 2,790 employees.

In addition, during the Reporting Period, the Group conducted fire drills across the country to improve employees' safety awareness and response time. In Xi'an, four sessions of 120 first-aid trainings and certifications were organized to improve employees' emergency rescue ability and self-aid and buddy care ability in case of emergencies and accidental injuries. At the EHS Free Clinic event organized in winter, the medical team of a 3A traditional Chinese medicine hospital in Shaanxi Province was invited to provide employees with scientific health knowledge, reminding them to raise their health awareness and pay attention to their own physical conditions.

B3 **Development and Training**

Focusing on the development and cultivation of talents, the Group is committed to stimulating the full development of employee's potentials and building a development system for talents of high potentials, with an objective to continuously heighten the vitality of the organization and help employees improve their professional qualities, thus realizing their own values, promoting their all-round personal development as well as the sustainable development of the Company. During the Reporting Period, the Group organized various operation trainings and communication sessions for employees, including orientation for new recruits, training for project managers, TC&TSE and SE&MDE trainings, training for fresh graduates, corporate culture building and empowerment training, helping the employees enhance their professional capabilities. The Group also conducted internal and external trainings for the management by dispatching 54 members of middle and senior management to participate in the management training in Hua Ying. As of 31 December 2019, a total of 99,157 persons participated in various kinds of trainings of the Group throughout the year, with an average satisfaction rate of 95.28%. The professional capabilities and morale of the employees were greatly enhanced, with improved competitiveness of the team.

"Benchmarking the SA8000 standard to improve the professionalism in the construction of a corporate social responsibility (CSR) system"

In 2019, the Group conducted an internal auditor training on the SA8000 standard (CSR system) by engaging a professional consulting institution to explain the standard systematically. Such training provided significant professional guidance in constructing the Group's CSR system, helping to enhance the management level of the Group's social responsibility system, and ensuring the sustainable development of business, so as to meet the more stringent requirements of the customers on the Group's social accountability. Upon the completion of the training, 26 CSR officers of the Group obtained the SA8000 standard internal auditor certificates issued by the consulting institution. With the joint support of professional consultants, internal auditors and employee representatives, as well as the reference to the SA8000 standard, the Group strengthened the construction of its CSR components and improved its social responsibility system during the Reporting Period. Continuous improvements were made by promoting the standard, completing the internal audit and management review processes. Great efforts were made to bring the construction of CSR system to a new level of professionalism.

"Developing employees' potentials by focusing on hot topics"

In 2019, the Group organized solution experts, pre-sales experts, consultants, system architects and delivery managers to directly engage in business guidance, consulting services and structural designs in data business training on corporate digitalization and cloudification. Based on the current concept of social data, which finds its roots in corporate structures and system constructions, the training focused on hot topics including enterprise digitization, cloudification and the concept of central platforms. Discussions were centered on planning corporate structures, standardizing the construction of business systems and central platform services systems, launching data cleansing to improve data quality and determining the correct implementation methods for data engineering projects from the perspective of data analysis. The objective is to increase the knowledge of various business units on the concepts of data and improve their abilities in pre-sales and consulting services based on such understanding. With these trainings, employees were empowered with knowledge in areas including data services as well as the technical development, practices and trend of big data.

In addition, the Group continued to organize quality assurance for engineers (QA) including qualification certification, QA professional certification interviews, and project manager professional certification interviews. As of 31 December 2019, the Group has accumulated a total of 1,453 certifications for project managers and 298 QA professional certifications, 178 QA qualification certifications (including ISO9001:2015 internal auditors, agile coach CSM and 6 Sigma green belts).

B4 Labor Standards

The Group strictly adheres to labor laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Regulation on Work-Related Injury Insurances, and strictly abides by the management policies established in accordance with the international policies for the prevention of child labor and forced labor, as well as the relevant policies and regulations established by the countries and locations where our operations are located. During the Reporting Period, the Group insisted on standardizing its employment according to law, by improving the recruitment and approval of appointment process, optimizing the overtime and work shift systems and encouraging employees to make proper arrangement of their leaves. Meanwhile, CSR construction was launched in strict compliance with the SA8000 standard during the CSR internal audit process. More than 300 items were audited with timely rectification of inconsistencies and further strengthening of management. Labor disputes were timely addressed in accordance with the laws and regulations, effectively protecting the legal rights of the Company and the employees. During the Reporting Period, there were no violations of international or domestic standards, rules and regulations in relation to child and forced labor, or those of the countries and locations where our operations are located.

B5 Supply Chain Management

In addition to complying with the "Bidding Law of the People's Republic of China", the Group also formulated and implemented the internal the Company's "Administrative Measures on Procurement and Tendering" to improve the business procurement system and processes and developed quality suppliers. With standardized procurement methods and transparent operation process, it follows the principle of "standardized bidding (invitation) and sunlight procurement", ensuring open, fair and equitable procurement. Through a multi-dimensional supplier evaluation system, suppliers are assessed and assigned scores, which are included in the supplier database, to identify high-quality suppliers and exclude those with slow or no improvement. In selecting suppliers, full consideration is given to their performance in environmental protection, social responsibility and energy conservation. Meanwhile, the Group helps suppliers to improve the quality of their products and services, and fulfills its social responsibilities such as environmental protection, energy conservation and emission reduction together with upstream and downstream enterprises, creating value and fostering a win-win relationship with the suppliers. During the Reporting Period, the Group was not aware of any significant actual or negative impact from its major suppliers on business ethics, environmental protection, human rights and labor practices.

B6 Product Responsibility

With the ultimate goal of "improving customer satisfaction", the Group evaluates and improves itself in multiple respects according to Huawei's Supplier Development Plan (SD Plan). Through a continuous iteration of zero-distance innovation practice, it provides its customers with quality services and products by leveraging its services advantages in software capabilities. Meanwhile, it strengthens its customer privacy protection by adhering to the privacy protection principle of reasonableness, transparence, controllability and security, and building a systematic and standardized data security and privacy protection system. During the Reporting Period, the Group was honored with awards including "New Fortune Hong Kong Listed Company with the Best IR", the "Top 10 of 100 Chinese Software Companies 2019" and the "2019 Asian Corporate Management Team Rankings" of Institutional Investor by virtue of its high-quality services and outstanding technological innovation.

"Supporting major national strategic projects"

By leveraging the its mature cross-industry big data construction methodology, its business accumulation in the airport industry and its data modeling capabilities, the Group completed key constructions of the "Airport 3.0 - Smart Airport" in 2019, effectively supporting major strategic projects of the country. Despite of multiple technological and project management challenges, the Group completed the construction of the intelligent data center on schedule, setting a benchmark for airport digitization and data centers digitization in China as well as in the world.

"Building an AI software ecosystem to drive industrial transformation"

During the Reporting Period, Chinasoft International's JointForce entered into a strategic cooperation agreement with Xiao i Robot in relation to the construction of an open-source artificial intelligence platform, to jointly advance the companies' capabilities and industrial transformations. With this cooperation, JointForce will, together with Xiao i Robot, promote the development and sharing of artificial intelligence by establishing an artificial intelligence zone, in which JointForce can fully utilize the artificial intelligence technology to set up a platform for the provision of a series of intelligent services, including data maps for software industry, intelligent order distribution, computer-assisted bid selection and expert services. In addition, the requests of Xiao i Robot can interconnect with JointForce to access its quality service resources professional IT service capabilities, empowering the platform service providers to form an AI software ecological system. In 2019, the artificial intelligence zone jointly established by both parties was successfully launched and put into operation. It is going to help more customers in the industry to obtain high-quality artificial intelligence services in the most convenient way, thereby realizing the companies' capability upgrades and industrial transformation driven by the artificial intelligence.

"Business Continuity Management (BCM)"

The Group has always been aiming to provide customers with stable and quality products and services. Emergency plans and business continuity plans are formulated by establishing a simple and efficient BCM process flow system and management structure. Training for the whole staff and special drills are conducted to strengthen the Company's capabilities in risk prevention and business continuity, so that it can effectively respond to various emergencies or major disasters and ensure the continuity of critical businesses and services. To ensure the effective implementation of the BCM system, the Group has established from top to bottom the BCM management committee, emergency command center, on-site emergency response and recovery teams in different regions as well as BCM Teams in various business lines, and conducted emergency drills in office premises. During the Reporting Period, there was no major business interruption in regard to ensuring timely delivery of products/services to customers or its own operations.

"Launching of DT Innovation Workshop to challenge traditional thinking"

The Design Thinking (DT) workshop of Stanford University's d.school introduced by the Group continued to roll out effectively, both internally and externally. The DT team inspires innovation through the brand new DT experiential model, and guide the corporate customers to the path of creative mind transformation by way of DT's novel teaching methods including the classical brainstorming and cross-domain interactions. The DT innovation workshop is a method to address companies' practical problems. The unique form and new concept of experiential classes can activate the participants' potentials in innovative thinking and provide impetus in innovation for the improvement of management capabilities and successful transformation of companies. Through digital innovation under the new model, the Group, using the Innovation Workshop, has provided better quality services and created enhanced values for customers in various sectors, including banks, large insurance companies, large retail logistics companies and modern services providers.

"Improve intellectual property management and continue to encourage innovation"

The Group has been continuously improving its own intellectual property management system, by focusing on the protection of intellectual property rights. It has formulated the internal application and approval procedures in relation to the protection of intellectual property rights, by specifying work responsibilities and auditing scopes of each division in these procedures, and ensuring that intellectual property rights be reported in an effective, reasonable and compliant manner. The Group fosters an all-embracing innovation culture, establishes and effectively implements innovation processes, as well as nurtures and develops innovative talents and teams. All employees are encouraged to carry out innovative activities through Zero Distance Innovation 2.0. In 2019, the Zero Distance Innovation empowered more than 1,700 employees, with 81 applications for Zero Distance Innovation of which 59 received awards. During the Reporting Period, 264 of the Company's independent intellectual property rights received copyright certificates for computer software from the National Copyright Administration of China and 13 patents were in progress of application. The protection of intellectual property rights spans over 11 business divisions of the Company.

"Focus on privacy protection and information security"

In the process of providing products and services to customers, the Group strictly adheres to the provisions in relation to customer privacy protection and intellectual property rights in Chinasoft International Confidentiality System. To ensure the effective implementation of data and privacy protection requirements and the compliance with laws and regulations, the Group has established a matrix control mechanism and base line, and formulated detailed management measures and procedures, and consistently promoted the importance of personal data protection compliance to all employees. The Group has developed corresponding data privacy courses for key positions to ensure that each employee involved in personal data and privacy protection understand the principle of data protection accurately and strictly implement the Company's policies based on his/her specific functions and roles.

During the Reporting Period, the Group further improved the network and information security management system. It continued to invest in security management and technology, specifying the rules for classification and grading of customer data security incidents, the rules for monitoring and early warning, the rules for security inspection and evaluation, and the rules for reporting and assessment. Information security training was enhanced to raise the awareness of information security among all employees. Supervision and inspection was intensified while the accountability and punishment scheme was strengthened. The construction of technical means to address network and information security risks was strengthened. IT network and IT system security emergency plans were formulated and regular drills were conducted to timely address security breaches in IT networks and systems and ensure business continuity.

"Take initiatives to obtain feedback and improve customer satisfaction"

The Group promotes the project integration management system to all business lines. Service quality is ensured with a system that tracks the progress of projects and helps the persons-in-charge at all levels to understand and monitor projects in real time. VOC and NPS customer satisfaction surveys were carried out to identify the Group's deficiencies as compared with industry benchmarks and areas of improvement, customers' opinions were obtained at different levels and responses were timely and effectively returned to the customers, demonstrating improved quality and efficiency of service delivery.

During the Reporting Period, the Group was not imposed of any penalty by regulators as a result of breaching of the laws and regulations related to personal data and privacy protection, nor did it receive any complaint related to product quality.

B7 Anti-corruption

The Group has always been adhering to running business with integrity, abiding by laws and regulations and keeping in line with business ethics, holding a "zero tolerance" attitude towards bribery, corruption and other acts that cross its red line. It strictly complies with the Law Against Unfair Competition, and to ensure its compliant operation, it has specified in the Employee Handbook that employees' are prohibited from giving or receiving briberies and the respective penalties. Employees, when joining the Group, are required to sign the Code of Business Conduct (BCG), Integrity Agreement and Integrity Undertakings as ways to restraint their behaviors. The Group also formulated management provisions on the breaching of BCG, violation of internal control requirements, and management regulations in respect of rewards and reporting. Rewards and penalties have been strengthened to ensure compliance by all employees. In addition, a company-level BCG reporting mail box, monitored real-time and managed by designated persons, has been set up to collect and handle various kinds of messages reporting any violation of the Group compliance requirements. These include, but not limited to, illegal and non-compliant behaviors such as bribery, corruption, fraud, disclosure of trade secrets, etc. Furthermore, in order to prevent commercial bribery in procurement, the Group has declared to all suppliers and partners that they should not work with Chinasoft International through any improper means. At the same time, a good faith clause and penalties for the breach of contract were added to the procurement contract, effectively eliminating bribery possibilities. During the Reporting Period, the Group was not aware of any significant violations by employees of relevant laws and regulations.

B8 Community Welfare

Since its establishment, the Group has always kept in mind its original intention to fully perform its corporate social responsibility and actively participating in social welfare activities. During the Reporting Period, the Group launched a campaign "Bring Hope to Children" together with Shaanxi Xinyu Charity Home (陝西心羽愛心家園). Volunteers, who were recruited within the Group, brought caring to the difficult families in need.

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

Dr. Tang Zhenming (唐振明), aged 57, is the senior vice president of the Company. He is responsible for the Group's training business. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Institute of Technology (北京理工大學) in 1994. Prior to joining the Company on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to July 1998 and by Chinasoft Cyber Information Technology Co., Ltd (Beijing) as deputy general manager from August 1998 to March 2003. Dr. Tang was also employed by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995.

Non-executive Directors

Dr. Zhang Yaqin (張亞勤), aged 54, was appointed on 31 December 2008. Dr. Zhang Ya-Qin was the President of Baidu, Inc. (listed on NASDAQ, NASDAQ: BIDU) from September 2014 to October 2019, in charge of autonomous and intelligent cloud emerging business and basic technology system and etc., and also the Chairman of Baidu R&D Centre in U.S. Prior to joining Baidu, Dr. Zhang served various positions at Microsoft Corporation (listed on NASDAQ, NASDAQ: MSFT) from January 1999 to September 2014, including: the corporate vice president of Microsoft Corporation, the chairman of Microsoft Asia-Pacific Research & Development Group responsible for driving Microsoft's overall research and development efforts in China and the Asia-Pacific region, the managing director and the chief scientist as well as an original founder of Microsoft Research Asia where he was in charge of Microsoft's mobile and embedded division in Microsoft's headquarters. Dr. Zhang is also a member of Committee 100, a group of leading Chinese- Americans to promote the political, science, social and economic exchanges between the US and China. Dr. Zhang honored academician of the American Academy of Arts and Science in 2019. Dr. Zhang was awarded a fellow of the Australian Academy of Technology and Engineering in December 2017, and he has also been a fellow of the Institute of Electrical and Electronics Engineers since March 1997. Dr. Zhang obtained his bachelor's degree in radio electronics and master's degree in telecommunication and electrical systems from the University of Science and Technology of China (中國科技大學) in July 1983 and January 1986 respectively. In February 1990, Dr. Zhang obtained his Ph.D. degree in electrical engineering from George Washington University, Washington D.C. Dr. Zhang has been an independent non-executive director of a number of companies, including AsiaInfo Technologies Limited (listed on the Stock Exchange, stock code: 1675) since August 2018 and Dr. Zhang has been an independent non-executive director of Fortescue Metals Group (ASX: FMG) since October 2019. Dr Zhang will join Tsinghua University as a chair Professor of Intelligent Science in July 2020.

Mr. Gao Liangyu (高良玉), aged 54, is the chairman of the board of Gao Zheng Asset Management Limited (高正資產管理有限公司) since July 2017. Mr. Gao was served as the chairman of the board of CSOP Asset Management Limited (南方東英資產管理有限公司) since March 2013, engaging in asset management business. Prior to joining CSOP Asset Management Limited, Mr. Gao was previously the deputy general manager at China Southern Fund Management Co., Ltd. (南方基金管理有限公司) in March 1998 and became the general manager of the same company from September 1998 to March 2013, responsible for the management and operation. Mr. Gao acted as the deputy division chief of the Public Offering Supervision Department of the China Securities Regulatory Commission (中國證券監督管理委員會) from March 1993 to March 1998, the section chief of the Finance Management Department of the People's Bank of China (中國人民銀行) from February 1991 to March 1993, studied in the Postgraduate Department of Financial Research Institute of the People's Bank of China from September 1988 to February 1991, and an officer of the Audits Department of Nanjing Agriculture University (南京農業大學) from July 1986 to August 1988. He served as an independent non-executive director of Jutal Offshore Oil Services Limited (巨濤海洋石油服務有限公司), a company listed on the Stock Exchange (stock code: 3303), from 2009 to 2015. Mr. Gao obtained his bachelor's degree in agricultural economics from Nanjing Agricultural University in July 1986.

Mrs. Gavriella Schuster, aged 54, has over the past 24 years managing and deploying a number of programs and products as well as licensing, pricing and go-to-market initiatives for Microsoft Corporation ("Microsoft"). She has consistently delivered high business growth through Microsoft's commercial segments, ranging from small business to global enterprise, leading sales and marketing teams across its Server and Cloud business, Windows Client Commercial business, Enterprise Services, licensing sales and marketing, field business development, training initiative development, segment marketing, worldwide partner marketing and training strategies, and worldwide operations. Mrs. Schuster has been the corporate vice president of Microsoft One Commercial Partner since June 2016. From May 2011 to May 2014, Mrs. Schuster was the general manager of US Cloud & Enterprise commercial business at Microsoft. From August 2006 to May 2011, Mrs. Schuster was the general manager of global product management of Windows Commercial business at Microsoft. From March 2001 to August 2006, Mrs. Schuster was a senior director of US enterprise licensing sales & marketing at Microsoft. From July 1999 to March 2001, Mrs. Schuster was a director of global Microsoft Enterprise Services at Microsoft. From February 1997 to July 1999, Mrs. Schuster was the group manager of global customer segment marketing at Microsoft. From May 1996 to February 1997, Mrs. Schuster was the group manager of global solution provider and training program for partners at Microsoft. From November 1995 to May 1996, Mrs. Schuster was the operations manager of Microsoft Partner Programs at Microsoft. Mrs. Schuster earned her bachelor's degree in Social Psychology from the University of Michigan in 1988.

Independent Non-executive Directors

Mr. Zeng Zhijie (曾之杰), aged 52, was appointed on 21 April 2003. Mr. Zeng is currently the founding Partner of Oriza-Rivertown Capital (元禾厚望成長基金) and the chairman of Shenzhen Hongtai Fund (深圳鴻泰基金). He has been active in the venture capital industry for twenty years. At present, Mr. Zeng serves as independent director and director for two listed companies: the independent director of Chinasoft International Limited (SEHK) and the director of CTS International Logistics Corp Ltd. (Shanghai Stock Exchange). Mr. Zeng obtained a bachelor's degree in economics from the University of Nagasaki, Japan, and a master of science degree in management from Stanford University.

Dr. Lai Guanrong (賴觀榮), aged 57, was appointed on 2 June 2015. Dr. Lai is currently the vice chairman of ABC Life Insurance Co., Ltd. (農銀人壽保險股份有限公司) since 2013. Dr Lai is also the independent director of Xin Yuan Enterprises Group Limited (信源企業集團有限公司) and is the chief economist of Shenzhen CMAF Management Co., Ltd (深圳市遠致富海投資管理有限公司) since 2018. Dr. Lai graduated from the School of Economics of Xiamen University in 1983 with a bachelor's degree, specialising in finance. He was awarded a master's degree by research by the Graduate School of the People's Bank of China (now known as the PBC School of Finance of Tsinghua University) in 1986. He was awarded a doctor's degree by research by the School of Economics of Xiamen University in 2001. He also took part in the 8-month special topic training "Dialogue between financial capital and technological innovation" organised by Tsinghua University in 2014. Dr. Lai was the secretary and deputy head of the office of the Fujian Province branch of the People's Bank of China. He led the establishment of the first securities company in Fujian and one of the first batch of securities companies in China, Minfa Securities Company Limited (閩發證券有限公司), and acted as the deputy general manager leading its work after the establishment of the company. He has led and successfully planned the merger and acquisition of listed companies, namely the merger of Xuji Electric (許繼電氣) (stock code: 000400SZ) with another listed company, Tianyu Electric (天宇電氣). In 1993, Dr. Lai led and successfully planned the listing of the earliest listed Fujian company, Fuyao Glass (福耀玻璃) (stock code: 600660SH); he also participated in the acquisition of Shenzhen Puruikang Biotechnology Co., Ltd (深圳市普瑞康生物技術有限公司). In 1996, Dr. Lai acted as the general manager of Fujian Min Qiao Trust Investment Company Limited (福建閩僑信託投資有限公司) and took over its management. After one year, Min Qiao Trust, which had been on the brink of bankruptcy, became the trust company with the highest gross profit and return on net assets ratio in the province. He has also been the president of Huafu Securities Company (華福證券公司), a provincial owned enterprise. When Dr. Lai was involved in the setting up of Jiahe Life Insurance Co., Ltd. (嘉禾人壽保險股份有限公司) and acted as its legal representative and president, he and the shareholders successfully introduced the Agricultural Bank of China as a controlling shareholder of Jiahe Life Insurance, together leading Jiahe Life Insurance into a new stage of development.

Professor Mo Lai Lan, aged 61, obtained her bachelor and Ph.D degrees in Accountancy from the Chinese University of Hong Kong and M.B.A. degree from Birmingham University in U.K. She is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Professor Mo joined City University of Hong Kong in 2011 as Professor of Accountancy and served as the Ph.D Program Coordinator for the Department of Accountancy during 2013-2015, and as Internship Coordinator from 2015 to 2017. She is now the Associate Director of the Research Centre for Sustainable Hong Kong (CSHK), a strategic applied research center established at City University of Hong Kong which aims at conducting impactful research in response to real-life sustainability challenges in Hong Kong and the Region. Previously, Professor Mo served as Professor and Head of the Department of Accountancy at Lingnan University from 2006 to 2011. She also had teaching and research experiences with other research universities. Prior to joining the academia, Professor Mo worked at an international leading CPA firm as a professional auditor and a listed company as an internal auditor. Professor Mo was a member of the Auditing & Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants from 2012 to 2017. Among other responsibilities, the Committee formulates auditing standards for listed companies in Hong Kong. Currently, she is a member of the Financial Reporting Council Review Committee, and a member of Board of Review (Inland Revenue Ordinance, Hong Kong) and a Specialist of Hong Kong Council for Accreditation of Academic & Vocational Qualifications (HKCAAVQ). Professor Mo's research focuses on audit quality, tax compliance and corporate governance. Many of her papers represent pioneer works on Accounting research published in leading international research journals. She also co-authored a book entitled "A Dream of the Red Chambers and Corporate Governance of Family Businesses"（紅樓夢與家族企業管治）and co-edited a book entitled "Transcending the Bottleneck – The Hong Kong Accountancy Profession"（突破瓶頸－香港會計業）. Professor Mo is currently an Associate Editor of the Asia-Pacific Journal of Accounting and Economics. She is also a member of the Editorial Board of AUDITING: A Journal of Practice & Theory and Journal of International Accounting Research which are leading research journals in Auditing and International Accounting respectively.

SENIOR MANAGEMENT

Mr. Simon Chung (鍾鎮銘), aged 59, is the global chief operating officer of the Company. He is responsible for the Company's strategic planning and overseas business development. He has over 20 years of experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom, finance and high-tech sectors. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. Prior to joining the Company, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005.

Mr. Simon Zhang (張崇濱), aged 57, is the senior vice president and chief human resources officer of the Company. He is responsible for the human resources management of the Company. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Company, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an) from 1997 to 1999. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino-US joint venture. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phoenix Medical Equipment Company.

Ms. Leong Leung Chai (梁良齊), Florence, aged 40, is the qualified accountant, company secretary and authorised representative of the Company and was appointed as the deputy chief financial officer of the Company in May 2017. She joined the Company in November 2005 to serve as the Financial Controller of the Group, and became the Company Secretary of the Company and an authorised representative since August 2013. Ms. Leong performs the duties of company secretary, and is responsible for the Group's regulatory compliance and financial management and reporting. Before joining the Company, Ms. Leong worked in an international audit firm for over 5 years where she was mainly responsible for financial auditing and internal control reporting. She has over 15 years' experience in financial auditing, listing compliance and corporate governance. Ms. Leong is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree (Hons) in Accountancy.

COMPANY SECRETARY

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

KEY AUDIT MATTERS - CONTINUED

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment	
We have identified goodwill impairment assessment as a key audit matter because determining the recoverable amount of relevant cash-generating units (or groups of cash-generating units) requires a significant degree of management judgement and may be subject to management bias. The determination of whether the carrying amount of goodwill is recoverable requires management to make significant estimates such as the discount rates, forecasts of future revenue growth rates and gross margins based on management's view of future business prospects. Details of goodwill and the corresponding key estimation uncertainty on its impairment assessment are disclosed in notes 16 and 4 to the consolidated financial statements, respectively.	Our procedures in relation to goodwill impairment assessment, performed on a sample basis, included: • Assessing the valuation methodology; • Challenging the appropriateness of the assumptions used, including specifically the revenue growth rates and gross margins used in the impairment testing model based on our knowledge on the business and industry; • Comparing the actual results with prior year's forecasts; • Performing an independent assessment of the discount rates used in the impairment testing model, including developing a range of independent estimates and comparing those to the discount rates selected by management, with the assistance of our fair value specialists; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

KEY AUDIT MATTERS - CONTINUED

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2020

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**12,041,895**	10,585,013
Cost of sales and services		**(8,458,802)**	(7,340,356)
Gross profit		**3,583,093**	3,244,657
Other income		**177,811**	64,078
Loss from derecognition of financial assets measured at amortised cost		**(4,544)**	(7,139)
Impairment losses under expected credit loss model, net of reversal	6	**(74,812)**	(35,200)
Impairment loss on goodwill		**(35,760)**	–
Other gains or losses		**849**	(5,669)
Selling and distribution costs		**(617,554)**	(495,524)
Administrative expenses		**(1,195,874)**	(1,091,148)
Research and development costs		**(808,949)**	(739,434)
Other expenses		**(58,929)**	(68,402)
Finance costs	7	**(166,045)**	(117,987)
Share of results of investments accounted for using the equity method		**(328)**	12,222
Profit before taxation		**798,958**	760,454
Income tax expense	8	**(42,272)**	(44,283)
Profit for the year	9	**756,686**	716,171

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTE	2019 RMB'000	2018 RMB'000
Other comprehensive expense			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		–	(13,834)
Item that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		(5,875)	19,383
Other comprehensive (expense) income for the year, net of tax		(5,875)	5,549
Total comprehensive income for the year		750,811	721,720
Profit for the year attributable to:			
Owners of the Company		754,888	715,803
Non-controlling interests		1,798	368
		756,686	716,171
Total comprehensive income attributable to:			
Owners of the Company		749,013	721,352
Non-controlling interests		1,798	368
		750,811	721,720
Earnings per share	12		
Basic		RMB0.3071	RMB0.2954
Diluted		RMB0.3005	RMB0.2789

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	13	**802,423**	837,634
Right-of-use assets	14	**278,646**	–
Intangible assets	15	**127,382**	148,172
Goodwill	16	**973,856**	1,006,337
Investments accounted for using the equity method	17	**227,607**	144,280
Equity instruments at fair value	18	**62,901**	51,508
Prepaid lease payments	19	**–**	37,003
Other receivables	21	**66,180**	29,935
Deferred tax assets	30	**8,075**	8,675
		2,547,070	2,263,544
Current assets			
Inventories	20	**54,421**	63,698
Trade and other receivables	21	**3,297,240**	2,585,247
Bills receivable	23	**4,443**	22,212
Contract assets	24	**2,228,494**	2,819,117
Prepaid lease payments	19	**–**	860
Amounts due from related companies	25	**75,126**	67,765
Pledged deposits	26	**12,861**	19,426
Bank balances and cash	26	**2,525,741**	2,646,375
		8,198,326	8,224,700
Current liabilities			
Trade and other payables	27	**1,229,223**	1,497,011
Bills payable	23	**22,051**	45,280
Lease liabilities	28	**125,668**	–
Contract liabilities	29	**138,815**	166,078
Amounts due to related companies	25	**3,101**	18,185
Dividend payable		**81**	81
Taxation payable		**83,808**	125,174
Convertible loan notes	31	**23,829**	198,263
Borrowings	32	**1,523,187**	1,675,646
		3,149,763	3,725,718
Net current assets		**5,048,563**	4,498,982
Total assets less current liabilities		**7,595,633**	6,762,526

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	30	**10,287**	11,062
Convertible loan notes	31	**727,672**	719,941
Lease liabilities	28	**123,734**	–
Borrowings	32	**200,000**	–
		1,061,693	731,003
		6,533,940	6,031,523
Capital and reserves			
Share capital	33	**116,325**	112,994
Share premium	34	**3,145,241**	2,982,319
Treasury shares	41	**(470,752)**	(76,451)
Reserves	34	**3,676,796**	2,948,128
Equity attributable to owners of the Company		**6,467,610**	5,966,990
Non-controlling interests		**66,330**	64,533
Total equity		**6,533,940**	6,031,523

The consolidated financial statements on pages 99 to 203 were approved and authorised for issue by the board of directors on 27 April 2020 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Dr. Tang Zhenming
DIRECTOR

	Attributable to the owners of the Company														
	Share capital RMB'000	Share premium RMB'000 (note 34)	Treasury shares RMB'000	Other reserves RMB'000 (note 34)	Fair value through other comprehensive income reserve RMB'000	Translation reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 34)	Statutory enterprise expansion fund RMB'000 (note 34)	Statutory surplus reserve fund RMB'000 (note 34)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	110,283	2,809,329	–	(122,769)	–	(31,474)	216,130	124,174	15,793	26,749	147,455	1,837,629	5,133,299	64,165	5,197,464
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	715,803	715,803	368	716,171
Other comprehensive (expense) income for the year	–	–	–	–	(13,834)	19,383	–	–	–	–	–	–	5,549	–	5,549
Total comprehensive (expense) income for the year	–	–	–	–	(13,834)	19,383	–	–	–	–	–	715,803	721,352	368	721,720
Issue of ordinary shares upon exercise of share options	1,661	141,332	–	–	–	–	(34,322)	–	–	–	–	–	108,671	–	108,671
Recognition of share option expenses	–	–	–	–	–	–	53,297	–	–	–	–	–	53,297	–	53,297
Conversion of convertible loan notes	1,050	68,533	–	–	–	–	–	(5,886)	–	–	–	–	63,697	–	63,697
Appropriations	–	–	–	–	–	–	–	–	–	–	33,514	(33,514)	–	–	–
Dividends paid to ordinary shareholders	–	(36,875)	–	–	–	–	–	–	–	–	–	–	(36,875)	–	(36,875)
Purchase of shares under share award scheme	–	–	(76,451)	–	–	–	–	–	–	–	–	–	(76,451)	–	(76,451)
At 31 December 2018	112,994	2,982,319	(76,451)	(122,769)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,969	2,519,918	5,966,990	64,533	6,031,523
Adjustments (See note 2)	–	–	–	–	–	–	–	–	–	–	–	(12,494)	(12,494)	(1)	(12,495)
At 1 January 2019 (restated)	112,994	2,982,319	(76,451)	(122,769)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,969	2,507,424	5,954,496	64,532	6,019,028
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	754,888	754,888	1,798	756,686
Other comprehensive expense for the year	–	–	–	–	–	(5,875)	–	–	–	–	–	–	(5,875)	–	(5,875)
Total comprehensive (expense) income for the year	–	–	–	–	–	(5,875)	–	–	–	–	–	754,888	749,013	1,798	750,811
Recognition of share option expenses	–	–	–	–	–	–	9,807	–	–	–	–	–	9,807	–	9,807
Expiry of share options	–	–	–	–	–	–	(48,025)	–	–	–	–	48,025	–	–	–
Conversion of convertible loan notes	3,331	211,043	–	–	–	–	–	(17,658)	–	–	–	–	196,716	–	196,716
Appropriations	–	–	–	–	–	–	–	–	–	–	50,487	(50,487)	–	–	–

Dividends paid to n2⊠Lang 1ETEMC 8 Tc -0(–)TjETEMC 6436Lang (en-GB)/MCID 4965 ⊠DC BT0 Tc 0 TwC 8 Tc -0a 8 Tc -0n(en-GB)/MCID 4952 ⊠DC BT0 6.175 -6.5 0 465.4488 70.8.129492.975CID 4965 Tw 0 6.34 Tcc -0a 8 Tc -0n(en-GB)/MCID 4952 ⊠DC I

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers – continued

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

Contracts with multiple performance obligations (including allocation of transaction price)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers – continued

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

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (for example, service contracts in which the Group bills a fixed amount for each hour of service provided), the Group recognises revenue in the amount to which the Group has the right to invoice.

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

Principal versus agent

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

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

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

Recognition of revenue from specific major source of revenue

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue from contracts with customers – continued

Recognition of revenue from specific major source of revenue – continued

(a) *Project-based development services*

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

(b) *Outsourcing services*

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

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

(c) *Other services*

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

(d) *Sales of goods*

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government grants

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

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

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) – continued

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

Definition of a lease (prior to 1 January 2019)

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

The Group as lessee

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

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – continued

Leasehold land and building – continued

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as property, plant and equipment.

Borrowing costs

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

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

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

Taxation

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

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

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

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

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Buildings under construction for future owner-occupied purpose

When buildings are in the course of construction for production or for administrative purposes, they 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).

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets – continued

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity – continued

Convertible loan notes – continued

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

Derecognition of financial liabilities

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

Foreign currencies

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

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

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

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 and share awards granted to employees

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity-settled share-based payment transactions – continued

Share options granted to suppliers

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to offices. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Leases are considered no longer enforceable when the Group as the lessee and the relevant lessors both have the right to terminate the lease without permission from the other party with no more than an insignificant contractual penalty.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

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

Critical judgements in applying accounting policies - continued

Determination on lease term of contracts with renewal options - continued

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);

- the extent of leasehold improvements undertaken by Group;

- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs);

Judgements in determining the performance obligations

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

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

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

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

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs (or groups of CGUs) to which goodwill has been allocated, and such estimation of the recoverable amount requires management to make significant estimates such as the discount rates, forecasts of revenue growth rates and gross margins based on management's view of future business prospects. The recoverable amount determination of the CGUs (or groups of CGUs) as at 31 December 2019 is based on the present value calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs (or groups of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2019, impairment loss of RMB35,760,000 was recognised by the Group (2018: nil). As at 31 December 2019, the carrying amount of goodwill is RMB973,856,000 (2018: RMB1,006,337,000). Details of the recoverable amount calculation are disclosed in note 16.

Project-based development contracts

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

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2018: one) were directors of the Company whose emoluments were included above. The emoluments of the three (2018: four) highest paid individuals were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	**50,273**	22,604
Retirement benefits costs	**149**	166
Share option expenses	**1,138**	12,873
	51,560	35,643

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

	No. of employees	
	2019	2018
Hong Kong Dollar ("HK$") HK$7,500,001 to HK$8,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**–**	1
HK$12,000,001 to HK$12,500,000	**–**	1
HK$12,500,001 to HK$13,000,000	**–**	1
HK$14,500,001 to HK$15,000,000	**1**	–
HK$18,500,001 to HK$19,000,000	**1**	–
HK$25,000,001 to HK$25,500,000	**1**	–
	3	4

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

None of the directors waived any emoluments during both years.

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends for ordinary shares of the Company recognised as distribution during the year:		
2018 Final – HK2.15 cents (2017: HK1.8 cents) per share	**48,121**	36,875

Subsequent to the end of the reporting period, a final dividend in respect of year ended 31 December 2019 of HK2.19 cents (2018: HK2.15 cents) per ordinary shares has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**754,888**	715,803
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**46,342**	59,236
Earnings for the purpose of diluted earnings per share	**801,230**	775,039

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,458,500**	2,423,085
Effect of dilutive potential ordinary shares:		
Share options	**14,149**	89,429
Convertible loan notes	**193,676**	266,115
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,666,325**	2,778,629

The number of shares adopted in the calculation of the basic earnings per share has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme (see note 41).

12. EARNINGS PER SHARE – CONTINUED

The computation of diluted earnings per share for the year ended 31 December 2019 did not assume the exercise of the Company's share options granted on 28 September 2018 and 21 September 2017 since the exercise prices of those share options were higher than the average market price of shares of the Company.

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2018	612,843	391,572	15,240	10,165	226,037	1,255,857
Exchange adjustments	–	1,471	10	–	41	1,522
Additions	1,121	68,081	921	12,901	30,474	113,498
Transfers				(14,768)	14,768	–
Disposals	–	(18,530)	(2,098)	–	–	(20,628)
At 31 December 2018	613,964	442,594	14,073	8,298	271,320	1,350,249
Exchange adjustments	3	443	–	(1)	62	507
Additions	9,668	37,621	179	16,501	41,845	105,814
Transfers	3,065	22	–	(16,461)	13,374	–
Disposals	–	(28,357)	(61)	–	–	(28,418)
At 31 December 2019	626,700	452,323	14,191	8,337	326,601	1,428,152
DEPRECIATION						
At 1 January 2018	18,155	229,035	11,277	–	144,871	403,338
Exchange adjustments	–	1,076	7	–	37	1,120
Provided for the year	15,803	57,480	700	–	48,422	122,405
Eliminated on disposals	–	(12,554)	(1,694)	–	–	(14,248)
At 31 December 2018	33,958	275,037	10,290	–	193,330	512,615
Exchange adjustments	1	359	–	–	38	398
Provided for the year	15,405	60,628	722	–	61,715	138,470
Eliminated on disposals	–	(25,693)	(61)	–	–	(25,754)
At 31 December 2019	49,364	310,331	10,951	–	255,083	625,729
CARRYING VALUE						
At 31 December 2019	577,336	141,992	3,240	8,337	71,518	802,423
At 31 December 2018	580,006	167,557	3,783	8,298	77,990	837,634

13. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

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

At 31 December 2019, the Group is in the process of obtaining the property certificate for the buildings with a carrying amount of RMB562,634,000 (2018: RMB575,577,000) which are located in the PRC.

14. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2019	37,863	222,567	260,430
Additions	–	127,485	127,485
Depreciation charge	(860)	(104,764)	(105,624)
Disposal	–	(4,106)	(4,106)
Exchange adjustment	–	461	461
As at 31 December 2019	37,003	241,643	278,646
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			52,016
Total cash outflow for leases			178,162

The Group leases various offices for its operations. Lease contracts are entered into for fixed term of 1 months to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for offices for its operations. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

The Group has obtained the land use right certificate for the leasehold land which is located in the PRC. The leasehold land is depreciated on a straight line basis over a lease term of 50 years.

15. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000 (Note i)	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 (Note i)	Technology RMB'000 (Note i)	Non-compete agreements RMB'000 (Note i)	Total RMB'000
COST											
At 1 January 2018	391,318	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	762,317
Additions	37,124	–	–	–	–	–	–	–	–	–	37,124
At 31 December 2018	428,442	17,367	27,153	19,704	12,494	243,924	13,764	1,010	23,344	12,239	799,441
Additions	37,573	–	566	–	–	–	–	–	–	–	38,139
At 31 December 2019	466,015	17,367	27,719	19,704	12,494	243,924	13,764	1,010	23,344	12,239	837,580
AMORTISATION/IMPAIRMENT											
At 1 January 2018	256,245	17,367	27,153	19,704	12,494	205,487	9,961	992	21,674	11,790	582,867
Provided for the year	51,514	–	–	–	–	13,456	1,305	8	1,670	449	68,402
At 31 December 2018	307,759	17,367	27,153	19,704	12,494	218,943	11,266	1,000	23,344	12,239	651,269
Provided for the year	47,745	–	37	–	–	9,832	1,305	10	–	–	58,929
At 31 December 2019	355,504	17,367	27,190	19,704	12,494	228,775	12,571	1,010	23,344	12,239	710,198
CARRYING VALUE											
At 31 December 2019	110,511	–	529	–	–	15,149	1,193	–	–	–	127,382
At 31 December 2018	120,683	–	–	–	–	24,981	2,498	10	–	–	148,172

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

Notes:

i. Technical knowhow, contract-based customer-related intangibles, technical expertise, trade name, technology and non-compete agreements 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.

15. 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

16. GOODWILL

	RMB'000
COST	
At 1 January 2018	1,192,867
Exchange adjustments	9,548
At 31 December 2018	1,202,415
Exchange adjustments	3,279
At 31 December 2019	1,205,694
IMPAIRMENT	
At 1 January 2018 and 31 December 2018	196,078
Impairment loss recognised in the year	35,760
At 31 December 2019	231,838
CARRYING VALUE	
At 31 December 2019	973,856
At 31 December 2018	1,006,337

16. 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 2019 and 2018 has been allocated to the following CGUs and groups of CGUs:

	2019 RMB'000	2018 RMB'000
Chinasoft Beijing	66,500	66,500
Shanghai Huateng	134,188	134,188
CSITS and related business	605,628	605,628
Catapult Systems, LLC ("Catapult")	166,710	199,191
Computer Training Center of CS&S ("Training Center")	830	830
	973,856	1,006,337

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

CGUs/groups of CGUs	Pre-tax discount rate		Growth rate	
	2019	2018	2019	2018
Chinasoft Beijing	15%	15%	3%	3%
Shanghai Huateng	14%	14%	3%	3%
CSITS and related business	16%	16%	3%	3%
Catapult	17%	19%	3%	3%
Training Center	17%	17%	3%	3%

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

16. GOODWILL – CONTINUED

Impairment loss recognised

Catapult runs a business operation in the USA engaged in the provision of traditional IT services to a stable portfolio of customers with a moderate but limited growth in revenue. The CGU is in the progress of transformation that takes longer time than expected to develop new cloud related service offerings and enhanced customer base. Based on the impairment assessment on the CGU in 2019, an impairment loss on goodwill amounting to RMB35,760,000 was recognised under the unsatisfactory financial performance and current outlook. The pre-tax discount rate used in the current estimate of recoverable amount reflects a decline in specific risk associated with the CGU operating in the USA. No other write-down of the assets of the CGU is considered necessary.

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2019 **RMB'000**	2018 RMB'000
Cost of unlisted investments	**180,281**	95,626
Share of post-acquisition profits, net of dividend received	**47,326**	48,654
	227,607	144,280

The Group's investments accounted for using the equity method include investments in entities and investment funds operating in the PRC. In the opinion of the directors of the Company, none of the individual investments accounted for using equity method materially affected the results or net assets of the Group.

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

	2019 **RMB'000**	2018 RMB'000
The Group's share of (loss) profit and total comprehensive income for the year	**(328)**	12,222
Aggregate carrying amount of the Group's interests in these investments	**227,607**	144,280

18. EQUITY INSTRUMENTS AT FAIR VALUE

	2019 RMB'000	2018 RMB'000
Unlisted equity investments	**62,901**	51,508

On 23 January 2014, the Group entered into a partnership agreement with PointGuard Management I, L.P. ("PointGuard Management") and other co-investment partners. Under the partnership agreement, the Group agreed to make a total amount of capital commitment of United States Dollars ("US$")10,000,000 to PointGuard Ventures I, L.P. ("PointGuard Ventures"), a Cayman Islands exempted limited partnership engaged in venture capital investments in equity or equity-oriented securities of private and public companies with an emphasis on technology convergence companies. Pursuant to the partnership agreement, PointGuard Management has the sole and exclusive right to manage, control, and conduct the affairs of PointGuard Ventures and to do any and all acts on behalf of it. The directors of the Company consider that the Group cannot exercise control nor significant influence on PointGuard Ventures. As at 31 December 2019, the capital contributions made by the Group in PointGuard Ventures amounted to US$10,000,000 (2018: US$10,000,000) which represents a 13.29% (2018: 13.29%) share of interest.

In 2019, the Group entered into a partnership agreement with other eight co-investment partners to establish Nanjing Turing Ventures I, L.P. ("Turing Ventures"). Under the partnership agreement, as amended by a supplemental agreement on 6 March 2019, the Group agreed to make a total amount of capital contributions of RMB20,000,000 to Turing Ventures, which represents a 7.47% share of interest. Turing Ventures was established on 13 March 2019 as a PRC limited partnership engaged in venture capital investments in equity or equity-oriented securities of private and public companies with an emphasis on artificial intelligence companies. Pursuant to the partnership agreement, the general partner of Turing Ventures has the sole and exclusive right to manage, control, and conduct the affairs of Turing Ventures and to do any and all acts on behalf of it. The directors of the Company consider that the Group cannot exercise control nor significant influence on Turing Ventures. As at 31 December 2019, the capital contributions made by the Group in Turing Ventures amounted to RMB15,000,000.

19. PREPAID LEASE PAYMENTS

	2018 Land use right RMB'000
Analysed for reporting purposes as:	
Non-current assets	37,003
Current assets	860
	37,863

In 2018, the Group's prepaid lease payments comprise payments associated with a land use right of RMB37,863,000 in the PRC. Upon application of HKFRS 16, the prepaid lease payments was reclassified to right-of-use assets.

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

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Computer hardware, equipment and software products	54,421	63,698

21. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables, net of allowance	2,978,781	2,139,753
Advances to suppliers	145,319	193,787
Deposits, prepayments and other receivables, net of allowance	239,320	281,642
	3,363,420	2,615,182
Analysed for reporting purposes as:		
Non-current assets	66,180	29,935
Current assets	3,297,240	2,585,247
	3,363,420	2,615,182

As at 1 January 2018, trade and other receivables amounted to RMB1,935,322,000.

Included in the non-current assets are rental deposits of RMB19,925,000 and other receivables of RMB46,255,000 representing deposits made in connection with an acquisition of an office building located in the PRC.

21. TRADE AND OTHER RECEIVABLES – CONTINUED

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

	2019	2018
	RMB'000	RMB'000
Within 90 days	**2,381,748**	1,681,131
Between 91 - 180 days	**190,179**	246,074
Between 181 - 365 days	**296,889**	168,267
Between 1 - 2 years	**109,965**	44,281
	2,978,781	2,139,753

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.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 36.

22. TRANSFER OF FINANCIAL ASSETS

The following are the Group's trade receivables as at 31 December 2019 and 2018 that were factored to certain banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowings (see note 32). These receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2019	2018
	RMB'000	RMB'000
Carrying amount of trade receivables	**–**	1,773
Carrying amount of associated liabilities	**–**	(1,773)
Net position	**–**	–

In addition to the above, as at 31 December 2019, trade receivables amounting to RMB386,742,000 (2018: RMB550,377,000) 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 RMB4,544,000 (2018: RMB7,139,000) which was charged to profit or loss.

23. BILLS RECEIVABLE AND PAYABLE

An aged analysis of bills receivable is as follows:

	2019 RMB'000	2018 RMB'000
Within 90 days	4,443	22,212

An aged analysis of bills payable is as follows:

	2019 RMB'000	2018 RMB'000
Within 180 days	22,051	45,280

As at 1 January 2018, bills receivable amounted to RMB11,897,000.

24. CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Contract assets	2,228,494	2,819,117

As at 1 January 2018, contract assets amounted to RMB2,573,866,000.

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

Contract assets, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on expected settlement dates. All contract assets reported at the end of 2019 are current.

Details of the impairment assessment are set out in note 36.

25. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2019 and 2018, the amounts due from related companies mainly represent dividend receivable from an associate of the Group and the advance to associates of the Group. The balances are unsecured, non-interest bearing and repayable on demand.

At the end of 2019 and 2018, the amounts due to related companies principally represent an advance from an associate of the Group, which is unsecured, interest-free and repayable on demand.

26. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks to secure short-term trade facilities granted to the Group and is therefore classified as 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 0.76% (2018: 0.50%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts carry at the weighted average interest rate at 0.29% (2018: 0.32%) per annum as at 31 December 2019.

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

	2019	2018
	RMB'000	RMB'000
Hong Kong Dollar	**108,441**	89,477
United States Dollar	**23,534**	45,222
Japanese Yen	**962**	845

In 2019 and 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

27. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**423,757**	639,678
Payroll payables	**678,044**	712,271
Other tax payables	**64,931**	64,792
Other payables	**62,491**	80,270
	1,229,223	1,497,011

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

	2019 RMB'000	2018 RMB'000
Within 90 days	**341,337**	564,584
Between 91 – 180 days	**2,252**	5,620
Between 181 – 365 days	**7,591**	8,113
Between 1 – 2 years	**33,003**	35,431
Over 2 years	**39,574**	25,930
	423,757	639,678

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. Accrued lease liabilities included in trade and other payables were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.

28. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	**125,668**
Within a period of more than one year but not more than two years	**76,205**
Within a period of more than two years but not more than five years	**40,240**
Within a period of more than five years	**7,289**
	249,402
Less: Amount due for settlement with 12 months shown under current liabilities	**(125,668)**
Amount due for settlement after 12 months shown under non-current liabilities	**123,734**

29. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities	138,815	166,078

As at 1 January 2018, contract liabilities amounted to RMB63,550,000.

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers. All contract liabilities reported at the end of 2019 are current.

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	101,595	41,808

30. DEFERRED TAXATION

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

	Customer relationship RMB'000	Patent RMB'000	Technology RMB'000	Tax losses RMB'000	Accrued charges 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 2018	(5,916)	(953)	(166)	1,258	4,410	(7,677)	644	(8,400)
Credit to profit or loss	3,468	326	166	1,359	(251)	–	1,191	6,259
Exchange adjustments	485	–	–	129	–	–	(860)	(246)
At 31 December 2018	(1,963)	(627)	–	2,746	4,159	(7,677)	975	(2,387)
Credit to profit or loss	431	326	–	286	(669)	–	(251)	123
Exchange adjustments	–	–	–	46	–	–	6	52
At 31 December 2019	(1,532)	(301)	–	3,078	3,490	(7,677)	730	(2,212)

30. DEFERRED TAXATION – CONTINUED

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets	**8,075**	8,675
Deferred tax liabilities	**(10,287)**	(11,062)
	(2,212)	(2,387)

At the end of the reporting period, the Group had unused tax losses of approximately RMB488,337,000 (2018: RMB334,369,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB14,657,000 (2018: RMB13,076,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB473,680,000 (2018: RMB321,293,000) tax losses due to the unpredictability of future profit streams. Tax losses for which no deferred tax asset is recognised amount to RMB473,680,000 (2018: RMB321,293,000) that will expire in various years before 2024 (2018: 2023).

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according to the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries as at 31 December 2019 amounting to RMB3,874,717,000 (2018: RMB2,955,610,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

31. CONVERTIBLE LOAN NOTES

Convertible loan notes issued in 2017

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

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2017 – continued

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

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

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

Convertible loan notes issued in 2016

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

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2016 – continued

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

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

At initial recognition, the conversion option component of the convertible loan notes that may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity was separated from the liability component. The conversion option component upon initial recognition is presented in equity under the heading of convertible loan notes reserve. The effective interest rates of the liability component for the first tranches and second tranches are 8.36% and 8.08% per annum, respectively. Conversions of a portion of the convertible loan notes were made during 2016 and 2018 into 77,994,692 ordinary shares and 25,998,230 ordinary shares, respectively.

As announced by the Company on 6 March 2019, the Company has received a formal request from the Noteholder of the Company, to transfer the remaining principal amount of US$30 million of the notes to Mr. Zhong (the "New Noteholder"), who is the ultimate beneficial owner of one of the Noteholder's limited partners. The Company has registered the transfer of the convertible loan notes. Conversion of the convertible notes was subsequently made on the same day into 77,994,692 ordinary shares.

31. CONVERTIBLE LOAN NOTES – CONTINUED

Convertible loan notes issued in 2016 – continued

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

	2019 RMB'000	2018 RMB'000
Carrying amount at the beginning of the year	918,204	953,645
Converted by the notes holders	(196,716)	(63,697)
Interest charge (note 7)	46,342	59,236
Interest paid	(16,329)	(30,980)
Carrying amount at the end of the year	751,501	918,204

Analysed for reporting purposes as:

	2019 RMB'000	2018 RMB'000
Current liabilities	23,829	198,263
Non-current liabilities	727,672	719,941
Carrying amount at the end of the year	751,501	918,204

32. BORROWINGS

	2019 RMB'000	2018 RMB'000
Unsecured bank loans (Note (i))	1,723,187	1,673,873
Secured bank loans (Note (ii))	–	1,773
	1,723,187	1,675,646

32. BORROWINGS – CONTINUED

	2019 RMB'000	2018 RMB'000
Carrying amount repayable:		
Within one year	1,523,187	1,675,646
More than one year but within five years	200,000	–
	1,723,187	1,675,646
Less: Amounts due within one year shown under current liabilities	(1,523,187)	(1,675,646)
Amounts shown under non-current liabilities	200,000	–

	2019 RMB'000	2018 RMB'000
Total borrowings		
At floating interest rates (Note (iii))	600,000	330,000
At fixed interest rates (Note (iv))	1,123,187	1,345,646
	1,723,187	1,675,646

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

Notes:

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

(ii) Trade receivables with a net carrying value of RMB1,773,000 were pledged in 2018 to secure certain bank loans granted to the Group.

(iii) Interests on borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 4.53% (2018: 4.76%) per annum.

(iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 3.92% to 5.22% (2018: 4.35% to 5.22%) per annum.

33. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2018, 31 December 2018 and 2019	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 2018	2,402,274,436	120,113,722	110,283
Exercise of share options (Note i)	38,040,000	1,902,000	1,661
Conversion of Convertible loan notes (Note ii)	25,998,230	1,299,912	1,050
At 31 December 2018	2,466,312,666	123,315,634	112,994
Conversion of Convertible loan notes (Note iii)	77,994,692	3,899,735	3,331
At 31 December 2019	2,544,307,358	127,215,369	116,325

Notes:

(i) During the year ended 31 December 2018, share options to subscribe for 38,040,000 ordinary shares of HK$0.05 each were exercised from HK$3.27 to HK$3.67 per share (see note 41). These shares rank pari passu with other shares in issue in all respects.

(ii) During the year ended 31 December 2018, convertible loan notes issued in 2016 with the principal amount of US$10,000,000 (translated to RMB65,521,000 at a fixed exchange rate) were converted into 25,998,230 ordinary shares of HK$0.05 each at a conversion price of HK$3.00 (translated to RMB2.52 at a fixed exchange rate) per share (see note 31). These shares rank pari passu with other shares in issue in all respects.

(iii) During the year ended 31 December 2019, convertible loan notes issued in 2016 with the principal amount of US$30,000,000 (translated to RMB196,563,000 at a fixed exchange rate) were converted into 77,994,692 ordinary shares of HK$0.05 each at a conversion price of HK$3.00 (translated to RMB2.52 at a fixed exchange rate) per share (see note 31). These shares rank pari passu with other shares in issue in all respects.

34. SHARE PREMIUM AND RESERVES

Share premium

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

Other reserves

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

General reserve fund and statutory enterprise expansion fund

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

Statutory surplus reserve fund

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

44. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with the Group's associates (including their subsidiaries), other than those disclosed elsewhere in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Provision of IT outsourcing services by the Group	329	1,451

	2019 RMB'000	2018 RMB'000
Provision of IT solution services by the Group	3,661	1,091

	2019 RMB'000	2018 RMB'000
Provision of other services by the Group	598	–

Compensation of key management personnel

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	32,472	18,843
Retirement benefits costs	232	249
Share option expenses	1,138	3,841
	33,842	22,933

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

45. MAJOR NON-CASH TRANSACTIONS

In 2019, the Group entered into new lease agreements for the use of leased properties for 1-5 years. On the lease commencement, the Group recognised right-of-use assets of RMB125,390,000 and lease liabilities of RMB125,390,000.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries directly and indirectly held by the company at the end of the reporting period are set out below:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
Chinasoft International (Hong Kong) Limited	Hong Kong	HK$100	–	–	100	100	Investment holding and trading of standalone software products
中軟國際科技服務(香港)有限公司 Chinasoft International Technology Service (Hong Kong) Limited	Hong Kong	HK$100,000	–	–	100	100	Provision of IT outsourcing services
Chinasoft Interfusion Inc.	USA	US$0.01	–	–	100	100	Provision of IT outsourcing services
北京中軟國際信息技術有限公司 Chinasoft Beijing	PRC	RMB200,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Training Center (Note i)	PRC	RMB500,000	–	–	100	100	Provision of IT training services
厦門中軟海晟信息技術有限公司 CSIHS	PRC	RMB80,000,000	–	–	51	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
上海中軟華騰軟件系统有限公司 Shanghai Huateng	PRC	US$8,000,000	–	–	100	100	Development and provision of IT system
中軟國際科技服務有限公司 CSITS	PRC	RMB100,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際(上海)科技服務有限公司 Chinasoft International Technology Service (Shanghai) Ltd.	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
北京中軟國際科技服務有限公司 CSITS BJ	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
中軟國際科技服務(大連)有限公司	PRC	RMB10,000,000	–	–	100	100	Provision of IT outsourcing services
Catapult Systems, LLC	USA	US$4,792,248	–	–	100	100	Provision of Microsoft product and technology consultancy services
武汉中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of IT outsourcing service
深圳中軟國際科技服務有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of solutions IT outsourcing IT consulting
中軟國際科技服務南京有限公司	PRC	RMB20,000,000	–	–	100	100	Provision of solutions IT outsourcing IT consulting
CSI Interfusion SDN.BHD	MY	MYR1,000,100	–	–	100	100	Provision of solutions IT outsourcing IT consulting
解放號網絡科技有限公司	PRC	RMB50,000,000	–	–	100	100	Provision of solutions

Except for convertible loan notes issued by the Company, none of the subsidiaries had any debt securities outstanding at 31 December 2019 or at any time during the year.

Note i: The entity is registered as an institutional organisation under the PRC law.

Note ii: All the PRC established entities, except for the entity mentioned in Note i, are registered as limited liability companies.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

The table below shows details of a non-wholly-owned subsidiary of the Company that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
CSIHS	PRC	49%	49%	1,942	608	45,162	43,220
Individually immaterial subsidiaries with non-controlling interests						21,168	21,313
						66,330	64,533

Summarised financial information in respect of the non-wholly-owned subsidiary of the Company that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

CSIHS	2019 RMB'000	2018 RMB'000
Current assets	170,153	154,642
Non-current assets	11,442	11,956
Current liabilities	(89,006)	(78,688)
Equity attributable to owners of the Company	47,427	44,690
Equity attributed to non-controlling interests	45,162	43,220
Revenue	145,242	141,578
Expenses	(141,279)	(140,337)
Profit and total comprehensive income for the year	3,963	1,241
Net cash generated from operating activities	6,526	11,933
Net cash used in investing activities	(623)	(435)
Net cash generated from (used in) financing activities	9,187	(11,700)
Net increase (decrease) in cash and cash equivalents	15,090	(202)

47. EVENTS AFTER THE REPORTING PERIOD

(a) The outbreak of the 2019 Novel Coronavirus ("COVID-19") in China and the subsequent quarantine measures imposed by the Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group since February 2020, as most of the Group's operations are located in China. The Group had to temporarily close some of its offices and request the majority of employees in China to work from home in February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. Since then, the Group has implemented certain controls and measures to minimise the impact of COVID-19 on its operations and has gradually resumed its business activities. In addition, certain local authorities have issued preferential policies to support business enterprises.

The directors of the Company are still assessing the financial impact that the COVID-19 will have on the Group's financial statements.

(b) In January and March 2020, the Company raised bank loans of HK$100 million and HK$1,700 million respectively, with a repayment period of three years.

48. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2019 RMB'000	2018 RMB'000
Non-current assets		
Interests in subsidiaries	2,152,671	2,152,671
Current assets		
Other receivables	2,590	44,958
Amounts due from subsidiaries	316,145	798,272
Bank balances and cash	11,453	47,307
	330,188	890,537
Current liabilities		
Other payables	1,927	1,717
Amounts due to related companies	118	118
Dividend payable	81	81
Convertible loan notes	23,829	198,263
	25,955	200,179
Net current assets	304,233	690,358
Total assets less current liabilities	2,456,904	2,843,029
Non-current liabilities		
Convertible loan notes	727,672	719,941
	1,729,232	2,123,088
	1,729,232	2,123,088
Capital and reserves		
Share capital	116,325	112,994
Share premium	3,145,241	2,982,319
Treasury shares	(470,752)	(76,451)
Reserves (Note)	(1,061,582)	(895,774)
Total equity	1,729,232	2,123,088

48. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY – CONTINUED

Note: Movement in reserves

	Equity-settled share-based payment reserve	Convertible loan notes reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	216,130	124,174	(1,141,689)	(801,385)
Loss and total comprehensive expenses for the year	–	–	(107,478)	(107,478)
Issue of ordinary shares upon exercise of share options	(34,322)	–	–	(34,322)
Recognition of share option expenses	53,297	–	–	53,297
Conversion of convertible loan notes	–	(5,886)	–	(5,886)
At 31 December 2018	235,105	118,288	(1,249,167)	(895,774)
Loss and total comprehensive expenses for the year	–	–	(157,957)	(157,957)
Recognition of share option expenses	9,807	–	–	9,807
Expiry of share options	(48,025)	–	48,025	–
Conversion of convertible loan notes	–	(17,658)	–	(17,658)
At 31 December 2019	196,887	100,630	(1,359,099)	(1,061,582)

Financial Summary

RESULTS

	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	5,129,111	6,783,367	9,243,684	10,585,013	**12,041,895**
Profit before taxation	419,994	524,587	632,769	760,454	**798,958**
Income tax expense	(87,010)	(114,754)	(71,462)	(44,283)	**(42,272)**
Profit for the year	332,984	409,833	561,307	716,171	**756,686**
Attributable to:					
Owners of the Company	280,056	442,081	565,567	715,803	**754,888**
Non-controlling interests	52,928	(32,248)	(4,260)	368	**1,798**
	332,984	409,833	561,307	716,171	**756,686**
	HKD (cents)	HKD (cents)	HKD (cents)	HKD (cents)	**HKD (cents)**
Dividend	–	1.2	1.8	2.15	**2.19**

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	6,348,453	7,229,303	8,751,533	10,488,244	**10,745,396**
Total liabilities	(2,862,183)	(2,896,664)	(3,521,567)	(4,456,721)	**(4,211,456)**
	3,486,270	4,332,639	5,229,966	6,031,523	**6,533,940**