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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 354)

INTERIM RESULTS REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

Results for the first half of 2016

Income statement highlights	For the six months ended 30 June		% Increase (over the same period last year)
	(unaudited) 2016	(unaudited) 2015	
	RMB'000	RMB'000	
Revenue	2,884,951	2,388,751	20.8%
Revenue from service	2,832,120	2,204,689	28.5%
EBIT	305,167	193,886	57.4%
Profit attributable to Owners of the Group	236,237	139,670	69.1%
<i>Basic EPS (RMB cents)</i>	11.04	7.23	52.7%
Statement of financial position highlights	(unaudited) 30 June 2016	(audited) 31 December 2015	% Increase
	RMB'000	RMB'000	
Total assets	6,773,049	6,348,453	6.7%
Total liabilities	(3,052,951)	(2,862,183)	6.7%
Total equity	<u>3,720,098</u>	<u>3,486,270</u>	6.7%

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016.
- No closure for the Register of Members of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY OPERATING DATA

During the first half of 2016, the Group's businesses continued to grow steadily. The revenue, service revenue, net profit attributable to the owners of the group, and the EPS increased by 20.8%, 28.5%, 57.4%, and 52.7 % YoY.

The key operating data (unaudited) for six months ended 30 June 2016 are:

	Six Months Ended 30 June		
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	Growth Rate
Revenue	2,884,951	2,388,751	20.8%
Service revenue	2,832,120	2,204,689	28.5%
Cost of Sales	(2,082,316)	(1,711,509)	21.7%
Gross Profit	802,635	677,242	18.5%
Other income, gains and losses	48,113	12,899	273.0%
Selling and distribution expenses	(112,217)	(110,631)	1.4%
Administrative expenses	(390,651)	(339,572)	15.0%
Allowance for doubtful debts	(11,382)	(309)	3,583.5%
Amortization of intangible assets and prepaid lease payments	(41,479)	(46,326)	(10.5%)
Share of results of associates	10,148	583	1,640.7%
EBIT	305,167	193,886	57.4%
Finance Costs	(39,039)	(39,565)	(1.3%)
Profit before taxation	266,128	154,321	72.5%
Taxation	(47,509)	(11,261)	321.9%
Profit for the period	218,619	143,060	52.8%
Profit attributable to shareholders	236,237	139,670	69.1%
Basic EPS (RMB cents)	11.04	7.23	52.7%

GENERAL OVERVIEW

The revenue, service revenue, and results of the Group's different business lines for the first half of 2016 are as follow:

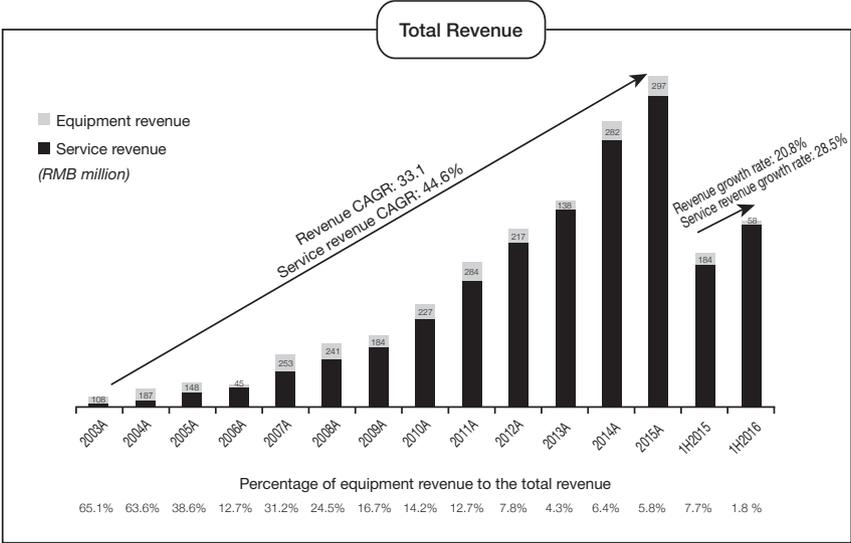
	Revenue			Service Revenue			Results		
	Six Months Ended 30 June			Six Months Ended 30 June			Six Months Ended 30 June		
	2016 RMB'000	2015 RMB'000	Growth Rate	2016 RMB'000	2015 RMB'000	Growth Rate	2016 RMB'000	2015 RMB'000	Growth Rate
Technical and Professional services Group (TPG)	2,287,883	1,758,020	30.1%	2,276,098	1,613,328	41.1%	249,605	140,952	77.1%
Internet ITS Group (IIG)	597,068	630,731	(5.3%)	556,022	591,361	(6.0%)	67,570	60,617	11.5%
Total	2,884,951	2,388,751	20.8%	2,832,120	2,204,689	28.5%	317,175	201,569	57.4%

In terms service revenue, the TPG's revenue and service revenue achieved a YoY growth of 30.1% and 41.1%. The growth came from the core customers including Huawei, HSBC, and Tencent. The IIG's revenue and service revenue experienced a YoY decrease of 5.3% and 6.0%. This decrease is because during the reporting period, the Group sold parts of the Excellent Training Center ("ETC"), so the Financial Statements is no longer consolidated. If taken out the effects of the ETC, the IIG's revenue and service revenue increased.

In terms of segment results, the TPG achieved a YoY growth of 77.1%, far higher than the revenue and service revenue growths of 30.1% and 41.1%. The reason is because during the reporting period, the pricing for the core customers increased, and the Group's management ability continued to increased, causing the SG&A to decrease. The IIG's result achieved a YoY growth of 11.5%. The increase is due to the application of the Jointforce platform, making important contributions to the Group's profitability.

The Group believes that as Jointforce, cloud computing, and big data’s profitability continue to increase, the Group will maintain a healthy growth.

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growth, recording a CAGR of 33.1% and 44.6% from 2003-2015. For the first six months of 2016, the revenue and service revenue achieved a YoY growths of 20.8% and 28.5%. The details are as follow:



Customers

The Group’s customers include large enterprises with headquarters located in the Greater China region, Europe, Americas and Japan. Within the Chinese market, most of our customers are large players in the industry verticals of Financial and Banking services, telecommunications, Internet and high technology industries.

In the first half of 2016, the top five and ten customers accounted for 63.0% and 67.9% of the Group’s service revenue.

As of 30 June 2016, the Group had over 76 large customers (contributed more than RMB6 million of service revenue within the past 12 months).

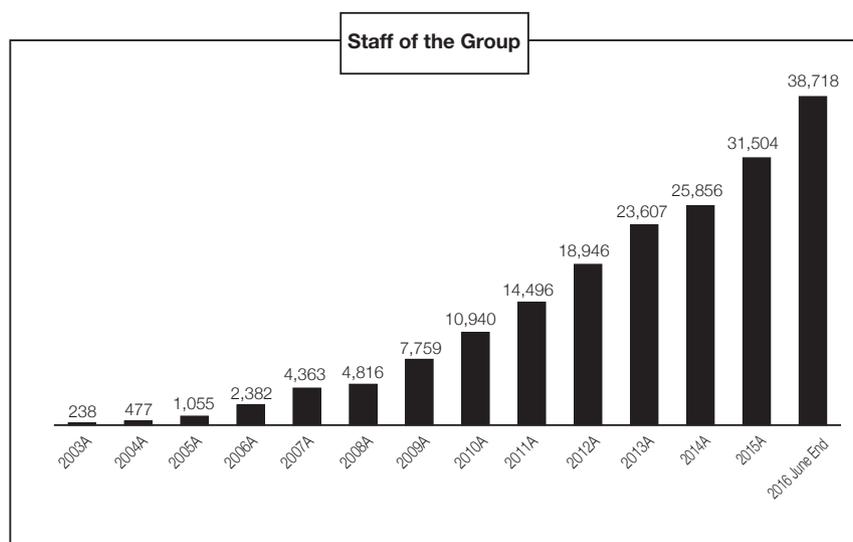
Market

The Group’s businesses are concentrated in the Greater China region. During the first half of 2016, the Group continued to set Greater China market as an important area of development. China’s strong economic growth and market potentials give rise to long-term growth opportunities. Meanwhile, the Group will continue to expand oversea and build a strong foundation for future businesses.

Human Resources

As of 30 June 2016, the Group has a total of 38,718 employees, representing an increase of 22.9% since the 31 December 2015.

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



Operating Results

The following chart is the Group's consolidated statement of comprehensive income for the six months ended 30 June 2015, 2016 (unaudited):

	2016			2015		
	RMB'000	% of Revenue	% of Service Revenue	RMB'000	% of Revenue	% of Service Revenue
Revenue	2,884,951	N/A	N/A	2,388,751	N/A	N/A
Service revenue	2,832,120	N/A	N/A	2,204,689	N/A	N/A
Cost of Sales	(2,082,316)	(72.2%)	N/A	(1,711,509)	(71.6%)	N/A
Gross profit	802,635	27.7%	28.3%	677,242	28.4%	30.7%
Other income, gains and loss	48,113	1.7%	1.7%	12,899	0.5%	0.6%
Selling and distribution costs	(112,217)	(3.9%)	(4.0%)	(110,631)	(4.6%)	(5.0%)
Administrative expenses	(390,651)	(13.5%)	(13.8%)	(339,572)	(14.2%)	(15.4%)
Allowance for doubtful debts	(11,382)	(0.4%)	(0.4%)	(309)	(0.01%)	(0.01%)
Amortization of intangible assets	(41,479)	(1.4%)	(1.5%)	(46,326)	(1.9%)	(2.1%)
Finance costs	(39,039)	(1.3%)	(1.4%)	(39,565)	(1.7%)	(1.8%)
Share of result of associates	10,148	0.35%	0.36%	583	0.02%	0.03%
Profit for the period	266,128	9.2%	9.4%	154,321	6.5%	7.0%
Taxation	(47,509)	(1.6%)	(1.7%)	(11,261)	(0.5%)	(0.5%)
Profit for the period	218,619	7.6%	7.7%	143,060	6.0%	6.5%
The Group's profit attributable to owners	236,237	8.2%	8.3%	139,670	5.8%	6.3%

Revenue

For the first half of 2016, the Group's revenue was RMB2,884.951 million, representing a YoY growth of 20.8% (for 2015 1H: RMB2,388.751 million). The Group's service revenue was RMB2,832.120 million, representing a YoY growth of 28.5% (for 2015 1H: RMB2,204.689 million). The growth came from the high growths of the core customers.

The comparison of the Group's revenue by businesses for the first half of 2016 and 2015 are as follow:

	Six Months Ended 30 June 2016 RMB'000	% of Total	Six Months Ended 30 June 2015 RMB'000	% of Total	Growth Rate
Technical and Professional Services Group (TPG)	2,287,883	79.3%	1,758,020	73.6%	30.1%
Internet ITS Group (IIG)	597,068	20.7%	630,731	26.4%	(5.3%)
Total	2,884,951	100%	2,388,751	100%	20.8%

The comparison of the Group's service revenue by businesses for the first half of 2016 and 2015 are as follow:

	Six Months Ended 30 June 2016 RMB'000	% of Total	Six Months Ended 30 June 2015 RMB'000	% of Total	Growth Rate
Technical and Professional Services Group (TPG)	2,276,098	80.4%	1,613,328	73.2%	41.1%
Internet ITS Group (IIG)	556,022	19.6%	591,361	26.8%	(6.0%)
Total	2,832,120	100%	2,204,689	100%	28.5%

Main Business Cost

For the first half of 2016, the Group's main business cost was RMB2,082.316 million, representing a YoY growth of 21.7% (for 2015 1H: RMB1,711.509 million).

Gross Profit

For the first half of 2015, the Group's gross profit was RMB802.635 million, representing a YoY growth of 18.5% (for 2015 1H: RMB677.242 million). The Group's gross margin was 27.8%, representing a YoY decrease of 0.6% (for 2015 1H: 28.4%). The main reason for the decrease is because during the reporting period, the TPG outsourcing businesses line, a lower margin business, outgrew the Group's other businesses.

Other Income, Gains, and Losses

For the first half of 2015, the Group's other income was RMB48.113 million, representing a YoY growth of 273.0% (for 2015 1H: RMB12.899 million). Approximately RMB20 million of the increase is because one of the clause for the U.S. subsidiary was not met, causing the Group payment exemption. Furthermore, the subsidies received this year was higher than that of last year.

Operating Expenses

For the first half of 2016, the Group's selling and distribution expenses was RMB112.217 million, representing a YoY increase of 1.4% (for 2015 1H: RMB110.631 million). The Group's selling and distribution expenses accounted for 3.9% of the revenue, representing a YoY decrease of 0.7% (for 2015 1H: 4.6%). The Group's selling and distribution expenses accounted for 4.0% of the service revenue, representing a YoY decrease of 1.0% (for 2015 1H: 5.0%). This is because during the reporting period, the selling and distribution expenses as a percentage of revenue for the Group decreased due to faster outsourcing business growth.

For the first half of 2016, the Group's administrative expenses were RMB390.651 million, representing a YoY increase of 15.0% (for 2015 1H: RMB339.572 million). The Group's administrative expenses accounted for 13.5% of the revenue, representing a YoY decrease of 0.7% (for 2015 1H: 14.2%). The Group's administrative expenses accounted for 13.8% of the service revenue, representing a YoY decrease of 1.6% (for 2015 1H: 15.4%).

Finance Expenses and Income Tax

For the first half of 2016, the Group's finance expenses accounted 1.4% of the revenue, representing a YoY decrease of 0.3% (for 2015 1H: 1.7%). The Group's finance expenses were RMB39.039 million (for 2015 1H: RMB39.565 million), maintaining the same level as that of last year.

For the first half of 2016, the income tax was RMB47.509 million, representing a YoY increase of 321.9% (for 2015 1H: RMB11.261 million). The reason for the increase is because of a one-time tax of RMB24.7 million for two subsidiaries of the Group.

Other Non-Cash Expenses

For the first half of 2016, the Group's amortization of intangible assets accounted for 1.4% of the revenue, representing a YoY decrease of 0.5% (for 2015 1H: 1.9%). The Group's amortization of intangible assets was RMB41.479 million, representing a YoY decrease of 10.5% (for 2015 1H: RMB46.326 million).

For the first half of 2016, the Group's share option expenses accounted for 0.3% of the revenue, representing a YoY increase of 0.2% (for 2015 1H: 0.1%) The Group's share option expenses were RMB7.673 million, representing a YoY increase of 256.6% (for 2015 1H: RMB2.150 million). The reason for the increase is because the Group issued a 30 million share option at the end of 2015.

For the first half of 2016, the Group's allowance for doubtful debts was RMB11.382 million, representing a YoY increase of 3,583.5% (for 2015 1H: RMB0.309 million).

Profit for the Period and Earnings Per Share

For the first half of 2016, the Group's profit was RMB218.619 million, representing a YoY growth of 52.8% (for 2015 1H: RMB143.060 million). The Group's profit to revenue and service revenue margins were 7.6% and 7.7%, representing a YoY growth of 1.6% and 1.2% (for 2015 1H: 6% and 6.5% respectively).

Excluding the profit attributable to the non-controlling interests, the Group's profit attributable to owners of the Company was RMB236.237 million, representing a YoY growth of 69.1% (for 2015 1H: RMB139.670).

Based on the profit attributable to shareholders, the Group's basic earnings per share (EPS) was RMB 11.04 cents, representing a YoY growth of 52.7% (for 2015 1H: RMB7.23 cents).

Fund Raising Activities

During the prior and current interim periods, the Group had conducted several fund raising activities which details are summarised as below:

- (1) On 3 May 2015, the Company entered into the subscription agreement with BOCOM International Holdings Company Limited ("BOCOM International"), pursuant to which BOCOM International conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue 50,000,000 new ordinary shares of HK\$0.05 each at the subscription price of HK\$3.68 per share. On 7 May 2015, 50,000,000 ordinary shares were issued and allotted to BOCOM International under general mandate at a subscription price of HK\$3.68 each. The net proceeds from the subscription amounted to approximately HK\$181.5 million. The Company intends to apply the net proceeds in collaborating with BOCOM to develop businesses related to supply chain financing; developing internet financing and related businesses; operating and promoting the Company's strategic product – JointForce platform; and the remaining portion of the proceeds would be utilized for general working capital purposes.

- (2) On 4 May 2015, the Company entered into a placing agreement with the BOCOM International Securities Limited (“BOCOM Securities”) pursuant to which the Company appointed BOCOM Securities as its agent to procure independent third parties to subscribe or failing which, to subscribe itself for, 50,000,000 new ordinary shares of HK\$0.05 each at a placing price of HK\$3.68 each. On 12 May 2015, the conditions of the placing agreement have been fulfilled and (i) 25,000,000, (ii) 20,000,000 and (iii) 5,000,000 ordinary shares were issued and allotted under general mandate to (i) China Life Franklin Asset Management Co., Ltd, (ii) China Life Trustee Limited – China Life Franklin Clients Account and (iii) The Peoples Insurance Company (Group) Of China Limited at the placing price of HK\$3.68 per share respectively. The net proceeds from the placing is approximately HK\$179 million. The Company intends to apply the net proceeds in acquiring oversea companies with large data volume processing capabilities in the finance industry, expanding enterprise cloud services channels, developing a enterprise cloud platform and the remaining proceeds will be used to supplement working capital.
- (3) On 26 October 2015, the Company and Huawei Technology Company Limited (“Huawei”) entered into a subscription and acquisition agreement pursuant to which (i) Huawei has conditionally agreed to subscribe, and the Company has conditionally agreed to issue 85,109,515 ordinary shares of HK\$0.05 each at a consideration of HK\$238,306,641 (the subscription price is approximately HK\$2.80 per subscription share); and (ii) the Company had conditionally agreed to acquire, and Huawei has conditionally agreed to sell, 40% equity interest in Chinasoft International Technology Services Limited at a consideration of HK\$238,306,641 to be satisfied by way of cash generated from the subscription. The transactions were completed on 25 February 2016, 85,109,515 ordinary shares were issued to Huawei under specific mandate granted to the Directors at the extraordinary general meeting of the Company held on 10 December 2015. The market value of the shares subscribed by Huawei as at completion date amounts to HK\$239,158,000.
- (4) On 3 February 2016, the Company entered into a subscription agreement with Huarong International Asset Management Growth Fund L.P. (“Huarong”) pursuant to which the Company has conditionally agreed to issue, and Huarong has conditionally agreed to subscribe for, a convertible loan notes in an aggregate principal amount of US\$70,000,000 (equivalent to approximately HK\$545,300,000) due in 2019. The convertible loan notes are to be issued in two tranches. The first and second tranche convertible loan notes amounted to US\$30,000,000 (equivalent to approximately HK\$233,700,000) and US\$40,000,000 (equivalent to approximately HK\$311,600,000) have been issued under general mandate on 15 February 2016 and 10 March 2016, respectively. The net proceeds from the issue of the convertible notes, after deducting all related fees and expenses, are approximately HK\$542,963,000. The Company used the proceeds for general working capital purpose.

INTERIM RESULTS

The board of Directors (the “Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June	
		2016	2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	2,884,951	2,388,751
Cost of sales		(2,082,316)	(1,711,509)
Gross profit		802,635	677,242
Other income, gains and losses		48,113	12,899
Selling and distribution costs		(112,217)	(110,631)
Administrative expenses		(390,651)	(339,572)
Allowance for doubtful debts		(11,382)	(309)
Amortisation of intangible assets		(41,479)	(46,326)
Finance costs	4	(39,039)	(39,565)
Share of result of associates		10,148	583
Profit before taxation		266,128	154,321
Taxation	5	(47,509)	(11,261)
Profit for the period		218,619	143,060
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		(1,469)	1,026
Total comprehensive income for the period		217,150	144,086
Profit for the period attributable to:			
Owners of the Company		236,237	139,670
Non-controlling interests		(17,618)	3,390
		218,619	143,060
Total comprehensive income attributable to:			
Owners of the Company		234,768	140,705
Non-controlling interests		(17,618)	3,381
		217,150	144,086
Earnings per share	7		
– Basic (cents)		11.04	7.23
– Diluted (cents)		10.63	6.71

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment		667,508	537,593
Intangible assets		273,038	283,103
Goodwill		995,610	995,610
Interests in associates		89,005	78,857
Available-for-sale investment		58,843	49,151
Prepaid lease payments		39,151	39,583
Other receivable		8,766	11,688
Deferred tax assets		3,638	6,561
		2,135,559	2,002,101
Current assets			
Inventories		50,620	30,260
Trade and other receivables	8	2,110,440	1,429,127
Bill receivable		16,860	8,828
Prepaid lease payments		860	893
Amounts due from customers for contract work		1,623,127	1,516,660
Amount due from related companies		53,315	49,862
Pledged deposits		35,534	44,891
Bank balances and cash		746,734	1,256,831
		4,637,490	4,346,352
Current liabilities			
Trade and other payables	9	915,051	940,372
Bills payable		6,517	2,120
Amounts due to customers for contract work		125,308	87,750
Amounts due to related companies		34,184	34,667
Dividend payable to shareholders		79	78
Taxation payable		88,704	87,353
Convertible loan notes		89,622	89,622
Borrowings	10	1,021,880	1,297,016
		2,281,345	2,538,978
Net current assets		2,356,145	1,807,374
Total assets less current liabilities		4,491,704	3,809,475

		(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Non-current liabilities			
Deferred tax liabilities		19,450	20,504
Consideration payable on acquisition of a subsidiary		19,205	39,205
Convertible loan notes		458,455	–
Borrowings	10	274,496	263,496
		<u>771,606</u>	<u>323,205</u>
		<u>3,720,098</u>	<u>3,486,270</u>
Capital and reserves			
Share capital	11	99,538	95,645
Share premium		2,248,585	2,106,029
Reserves		1,285,375	1,045,531
		<u>3,633,498</u>	<u>3,247,205</u>
Equity attributable to equity holders of the Company		<u>86,600</u>	<u>239,065</u>
Non-controlling interests		<u>3,633,498</u>	<u>3,247,205</u>
Total equity		<u>3,720,098</u>	<u>3,486,270</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to the owners of the company												
	Share capital	Share premium	Hedging reserve	Translation reserve	Share options reserve	Convertible loan notes reserve	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve fund	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	88,014	1,686,561	-	(11,532)	48,813	30,391	15,793	26,749	71,303	541,287	2,497,379	203,652	2,701,031
Profit for the period	-	-	-	-	-	-	-	-	-	139,670	139,670	3,390	143,060
Exchange differences arising from translation of overseas operations	-	-	-	1,035	-	-	-	-	-	-	1,035	(9)	1,026
Total comprehensive income for the period	-	-	-	1,035	-	-	-	-	-	139,670	140,705	3,381	144,086
Acquisition of additional equity interest in subsidiary	-	-	-	-	-	-	-	-	-	-	-	7,500	7,500
New issue of shares upon exercise of share option	237	10,220	-	-	(2,476)	-	-	-	-	-	7,981	-	7,981
Recognition of equity-settled share based payments	-	-	-	-	2,152	-	-	-	-	-	2,152	-	2,152
Issue of ordinary shares upon partial conversion of convertible loan notes	2,296	115,760	-	-	-	(21,605)	-	-	-	-	96,451	-	96,451
Issue of ordinary shares upon subscription	1,973	143,258	-	-	-	-	-	-	-	-	145,231	-	145,231
Expenses on issue of subscription shares	-	(1,454)	-	-	-	-	-	-	-	-	(1,454)	-	(1,454)
Issue of ordinary shares upon placing	1,973	143,258	-	-	-	-	-	-	-	-	145,231	-	145,231
Expenses on issue of placing shares	-	(3,632)	-	-	-	-	-	-	-	-	(3,632)	-	(3,632)
At 30 June 2015	94,493	2,093,971	-	(10,497)	48,489	8,786	15,793	26,749	71,303	680,957	3,030,044	214,533	3,244,577
At 1 January 2016	95,645	2,106,029	25,989	1,960	50,605	13,676	15,793	26,749	87,133	823,626	3,247,205	239,065	3,486,270
Profit for the period	-	-	-	-	-	-	-	-	-	236,237	236,237	(17,618)	218,619
Exchange differences arising from translation of overseas operations	-	-	-	(1,469)	-	-	-	-	-	-	(1,469)	-	(1,469)
Total comprehensive income for the period	-	-	-	(1,469)	-	-	-	-	-	236,237	234,768	(17,618)	217,150
New issue of shares upon exercise of share option	310	12,289	-	-	(1,813)	-	-	-	-	-	10,786	-	10,786
Recognition of equity-settled share based payments	-	-	-	-	7,673	-	-	-	-	-	7,673	-	7,673
Cancellation of share options	-	-	-	-	(784)	-	-	-	-	-	(784)	-	(784)
Issue of ordinary shares upon subscription	3,583	197,048	-	-	-	-	-	-	-	-	200,631	-	200,631
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	100	100
Acquisition of additional equity interest in subsidiary	-	(66,781)	-	-	-	-	-	-	-	-	(66,781)	(134,947)	(201,728)
At 30 June 2016	99,538	2,248,585	25,989	491	55,681	13,676	15,793	26,749	87,133	1,059,863	3,633,498	86,600	3,720,098

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended	
	30 June	
	2016	2015
	RMB'000	RMB'000
Net cash used in operating activities	(560,976)	(471,596)
Net cash used in investing activities	(132,364)	(263,340)
Net cash generated from financial activities	<u>173,240</u>	<u>475,919</u>
Net decrease in cash and cash equivalents	(520,100)	(259,017)
Effect of foreign exchange rate changes	1,003	1,817
Cash and cash equivalents at the beginning of the period	<u>1,265,831</u>	<u>811,435</u>
Cash and cash equivalents at the end of the period	<u><u>746,734</u></u>	<u><u>554,235</u></u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKAS19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

3. TURNOVER AND SEGMENT INFORMATION.

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

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers for each type of goods supplied or services provided by the Group’s operating divisions.

In the prior interim period, the Group had four operating divisions which represent four reportable operating segments, namely, (a) professional services business; (b) outsourcing services business; (c) emerging services business and (d) training business. During 2015, the Group reorganised its internal reporting structure to two new divisions called “technical professional services group” and “internet IT services group”, following an reorganisation of the prior divisions’ activities and identification of new segment managers. Subsequent to the change of the internal reporting structure, the Group has two reportable operating segments, which are (a) technical professional services group and (b) internet IT services group. Prior period segment disclosures have been represented to conform with the current year’s presentation.

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

1. Technical Professional Group ("TPG") – Targeting large industry vertical enterprise customers, providing services including vertical domain solutions, product engineering, application system development and testing.
2. Internet IT Service Group ("IIG") – Targeting "long tail" markets in IT services, including SMEs and local governments, and individual programmers and small programming teams. IIG's main services provided include: membership management, transaction facilitation, payment services, social blogs/media and cloud delivery process software rental.

Information regarding the above segments is reported as below.

Segment revenues and results

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

	For the six months ended 30 June			
	Segment revenue		Segment results	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Technical professional services business (TPG)	2,287,883	1,758,020	249,605	140,952
Internet IT services business (IIG)	597,068	630,731	67,570	60,617
	<u>2,884,951</u>	<u>2,388,751</u>	<u>317,175</u>	<u>201,569</u>

Segment revenue by products and services:

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of software and hardware products	52,831	184,062
Technical professional services business (TPG)	2,276,098	1,613,328
Internet IT services business (IIG)	556,022	591,361
	<u>2,832,120</u>	<u>2,204,689</u>
	<u>2,884,951</u>	<u>2,388,751</u>

Reconciliation of segment results to profit before taxation:

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	317,175	201,569
Other income, gains and losses	4,189	(17)
Loan interest	(3,664)	(10,383)
Corporate expenses	(31,415)	(29,588)
Share option expenses	(7,673)	(2,152)
Effective interest on convertible loan notes	(12,484)	(5,108)
	<u>266,128</u>	<u>154,321</u>
Profit before taxation	<u>266,128</u>	<u>154,321</u>

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

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

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

4. FINANCE COSTS

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings wholly repayable within five years	26,555	34,457
Effective interest on convertible loan notes	12,484	5,108
	<u>39,039</u>	<u>39,565</u>
	<u>39,039</u>	<u>39,565</u>

5. TAXATION

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Tax charge comprises:		
PRC Enterprise Income Tax	47,696	9,205
Hong Kong Profits Tax	–	–
The US Federal and State Income taxes	(391)	1,937
Japan Income Tax	204	119
	<hr/>	<hr/>
	47,509	11,261
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong Profits Tax has been made for both periods as the Company and its subsidiaries have no assessable profit arising in Hong Kong.

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

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

6. DIVIDEND

The Company did not declare final dividend for the year ended 31 December 2015 and interim dividend for the period ended 30 June 2016 to its shareholders.

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of calculating basic earnings per share	236,237	139,670
Effect of dilutive potential profit attributable to owners of the Company:		
Interest on convertible loan notes	12,484	–
Earnings for the purpose of diluted earnings per share	<u>248,721</u>	<u>139,670</u>
	Number of shares	
	2016	2015
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>2,139,501,783</u>	<u>1,932,078,587</u>
Effect of dilutive potential ordinary shares:		
Share options	18,764,108	148,005,652
Convertible loan notes	<u>181,479,798</u>	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>2,339,745,689</u>	<u>2,080,084,239</u>

The computation of diluted earnings per share for the period ended 30 June 2015 did not assume the conversion of the convertible loan notes as the conversion would result in an increase in the diluted earnings per share.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2016 <i>RMB'000</i>	(Audited) 31 December 2015 <i>RMB'000</i>
Trade receivables	1,972,002	618,621
Less: Allowance for doubtful debts	(162,654)	(151,431)
	<u>1,809,348</u>	<u>467,190</u>
Trade receivables from related companies	1,930	687,009
	<u>1,811,278</u>	<u>1,154,199</u>
Advances to suppliers	73,584	81,208
Deposits, prepayments and other receivables	234,344	205,408
	<u>2,119,206</u>	<u>1,440,815</u>
Analysed for reporting purposes as:		
Non-current assets	8,766	11,688
Current assets	2,110,440	1,429,127
	<u>2,119,206</u>	<u>1,440,815</u>

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

	(Unaudited) 30 June 2016 <i>RMB'000</i>	(Audited) 31 December 2015 <i>RMB'000</i>
Within 90 days	1,357,674	749,704
Between 91-180 days	254,998	226,564
Between 181-365 days	148,824	164,307
Between 1-2 years	41,252	9,773
Over 2 years	8,530	3,851
	<u>1,811,278</u>	<u>1,154,199</u>

The fair value of the Group's trade and other receivables at 30 June 2016 was approximately equal to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2016 <i>RMB'000</i>	(Audited) 31 December 2015 <i>RMB'000</i>
Trade payables	442,503	473,040
Deposits received from customers	39,089	33,170
Other payables and accrued charges	433,459	434,162
	<u>915,051</u>	<u>940,372</u>

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

	(Unaudited) 30 June 2016 <i>RMB'000</i>	(Audited) 31 December 2015 <i>RMB'000</i>
Within 90 days	277,580	366,278
Between 91-180 days	74,423	23,706
Between 181-365 days	34,746	21,568
Between 1-2 years	19,582	24,579
Over 2 years	36,172	36,909
	<u>442,503</u>	<u>473,040</u>

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The fair value of the Group's trade and other payables at 30 June 2016 was approximately equal to the corresponding carrying amount.

10. BORROWINGS

	(Unaudited) 30 June 2016 <i>RMB'000</i>	(Audited) 31 December 2015 <i>RMB'000</i>
Unsecured bank loans (Note (i))	795,946	1,248,250
Secured bank loans (Note (ii))	500,430	312,262
	<u>1,296,376</u>	<u>1,560,512</u>

	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Carrying amount repayable:		
Within one year	1,021,880	1,036,831
More than one year, but not exceeding two years	–	–
More than two years, but not exceeding five years	–	–
More than five years	274,496	263,496
	<u>1,296,376</u>	<u>1,300,327</u>
Carrying amount of bank loans that are repayable on demand due to breach of loan covenants	–	260,185
Less: Amounts due within one year shown under current liabilities	(1,021,880)	(1,297,016)
Amounts shown under non-current liabilities	<u>274,496</u>	<u>263,496</u>
	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Total borrowings		
At fixed interest rates (<i>Note (iv)</i>)	528,950	624,265
At floating interest rates (<i>Note (iii)</i>)	767,426	936,247
	<u>1,296,376</u>	<u>1,560,512</u>
	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	1,296,376	1,142,208
Denominated in USD	–	418,304
	<u>1,296,376</u>	<u>1,560,512</u>

Notes:

- (i) Guaranteed by the Company and certain subsidiaries of the Company.
- (ii) Trade and bill receivables with a net carrying value of approximately RMB317,180,000 (2015: RMB125,662,000) are pledged to secure certain bank loans granted to the Group. The remaining bank loans amount to RMB183,250,000 (2015: RMB186,600,000) are secured by the land use right and construction in progress of the Group.
- (iii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the first half year of 2016 is 4.95% (2015: 5.18%) per annum.
- (iv) Interests on fixed rates borrowings are charged at interest rates ranged from 4.35% to 7% (2015: 4.6% to 7%)

In accordance with the Group's announcement on 3 May 2015, the Group has failed to comply with the provisions of the syndicated loan agreement ("non-compliances") after the Group disclosed its "change in shareholding structure" and "financial non-compliance". On 17 February 2016, the Company made full repayment of the total outstanding bank borrowings relating the non-compliances and obtained all necessary waivers from the banks regarding the non-compliances.

11. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

		Number of shares	Nominal amount <i>HK\$</i>
Authorised			
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016		<u>4,000,000,000</u>	<u>200,000,000</u>
	Number of shares	Nominal amount <i>HK\$</i>	Amount shown in the financial statements <i>RMB'000</i>
Issued and fully paid			
At 31 December 2014 and 1 January 2015	1,874,585,283	93,729,265	88,014
Exercise of options	6,000,000	300,000	237
Conversion of convertible loan notes	58,202,474	2,910,124	2,296
Issue of subscription shares	50,000,000	2,500,000	1,973
Issue of placing shares	50,000,000	2,500,000	1,973
	<u>2,038,787,757</u>	<u>101,939,389</u>	<u>94,493</u>
At 30 June 2015			
Exercise of options	22,200,000	1,110,000	908
Conversion of convertible loan notes	5,820,247	291,012	244
	<u>2,066,808,004</u>	<u>103,340,401</u>	<u>95,645</u>
At 31 December 2015 and 1 January 2016			
Exercise of options	7,430,000	371,500	310
Issue of subscription shares	85,109,515	4,255,475	3,583
	<u>2,159,347,519</u>	<u>107,967,376</u>	<u>99,538</u>

12. CAPITAL COMMITMENTS

The Group had no capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the financial statements.

13. RELATED PARTY TRANSACTIONS

During the relevant periods in 2015 and 2016, the Group had the following transactions with the following related parties:

		For the six month ended 30 June	
	<i>Note</i>	2016 RMB'000	2015 RMB'000
Provision of IT outsourcing services			
– Huawei Group	(a)	354,517	784,116

Note:

- (a) Huawei was the non-controlling owner of Chinasoft International Technology Service Co., Limited (“CSITS”), a non-wholly owned subsidiary of the Company. Following the establishment of CSITS in April 2012, Huawei Group became a related party of the Group thereafter. And Huawei Group ceased to be a related party of the Group since 25 February 2016 after it disposed its entire equity interest in CSITS.

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

14. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB2,069,392,000, including the directors’ emoluments of approximately RMB7,605,000 during the six months ended 30 June 2016 (2015: approximately RMB1,518,000,000, including the directors’ emoluments of approximately RMB3,160,000). The increase in employee remuneration resulted from the increase in the number of employees from 27,847 to 38,718.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2016 of the Group amounted to approximately RMB41,479,000 (2015: RMB46,326,000) and approximately RMB23,300,000 (2015: RMB32,690,000), respectively.

DIRECTORS' INTERESTS IN SHARES

As 30 June 2016, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name of Director	Total No. of Ordinary Shares	Approximate percentage of total issued ordinary share capital of the Company as at 30 June 2016
Chen Yuhong	264,392,861	12.24%
Tang Zhenming	11,827,765	0.55%
Zeng Zhijie	250,000	0.01%

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 1 January 2016	No. of share options exercised during the period	No. of share options outstanding as at 30 June 2016	Percentage of total issued ordinary share capital of the Company as at 30 June 2016	No of underlying ordinary shares interested in	Percentage of total issued ordinary share capital of the Company as at 30 June 2016	Note
Chen Yuhong	2.15	10,000,000	-	10,000,000	0.46%	10,000,000	0.46%	(2)
Tang Zhenming	0.97	800,000	(800,000)	-	-	12,000,000	0.55%	
	1.78	2,000,000	-	2,000,000	0.09%			(1)
	2.15	10,000,000	-	10,000,000	0.46%			(2)
Zheng Yaqin	3.27	3,000,000	-	3,000,000	0.14%	3,000,000	0.14%	(3)

Notes:

- (1) These share options were offered on 10 April 2007 under the share option scheme of the Company adopted on 2 June 2003 and accepted on 8 May 2007. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
10/04/2007	09/04/2017	25% of the total number of share options granted
10/04/2008	09/04/2017	25% of the total number of share options granted
10/04/2009	09/04/2017	25% of the total number of share options granted
10/04/2010	09/04/2017	25% of the total number of share options granted

- (2) These share options were offered on 23 January 2014 under the share option scheme of the Company adopted on 20 May 2013 and accepted on 31 January 2014. The share options are exercisable for a period of 3 years from the date of offer subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
23/01/2014	22/01/2017	30% of the total number of share options granted
23/01/2015	22/01/2017	30% of the total number of share options granted
23/01/2016	22/01/2017	40% of the total number of share options granted

This batch of share options are subject to a vesting condition that the market capitalization of the Company shall reach HK\$10 billion or higher for 5 consecutive trading days during the exercise period.

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

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

SHARE OPTION SCHEME

As at 30 June 2016, there were share options to subscribe for an aggregate of 150,555,000 Shares granted to certain Directors and employees of the Group pursuant to the Share Option Scheme and the New Share Option Scheme outstanding, representing 6.97% of the total issued ordinary share capital of the Company as at 30 June 2016.

During the six months ended 30 June 2016, an aggregate of 7,430,000 share options were exercised, 250,000 share options were lapsed and no share option has been granted under the Share Option Scheme and the New Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June 2016 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2016 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2016, the Company had adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules relating to dealings in securities. Having made specific enquiry with all the Directors, the Directors had complied with the Model Code regarding securities transactions during the six months ended 30 June 2016.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2016, the board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules have served as guideposts for the Company to follow in its implementation of corporate governance measures.

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

In the opinion of the Board, the Group has complied with the CG Code from 1 January 2016 to 30 June 2016, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2016 (the "2015 AGM") (deviated from code provision E.1.2 of the CG Code) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2015 AGM; (ii) the roles of chairman and chief executive officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1 of the CG Code). Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings in securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 30 June 2016.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2016, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Prime Partners Development Limited (Note 1)	Beneficial interest	139.07	6.44%	5.81%
Huarong International Asset Management Growth Fund (Note 2)	Beneficial interest	181.99	8.43%	7.60%

* The total number of issued share consists of 2,159,347,519 Ordinary Shares and Convertible Notes which could be converted into 234,369,839 Ordinary Shares.

Note:

1. Dr. Chen Yuhong is deemed to be interested in 139,072,725 Ordinary Shares and through Prime Partners Development Limited, which is wholly owned by Dr. Chen Yuhong.
2. Huarong International Asset Management Growth Fund is interested in 181,987,612 Ordinary Shares which could be issued upon full conversion of Convertible Notes in principal amount of US\$70,000,000, of which the first tranche of US\$30,000,000 issued on 15 February 2016 and the second tranche of US\$40,000,000 issued on 10 March 2016.

Save as disclosed above, as at 30 June 2016, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30 June 2016, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference in compliance with the requirements as set out in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. The audit committee comprises of three independent non-executive directors, namely Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee.

The audit committee of the Company has reviewed the Interim results of the Group for the six months ended 30 June 2016.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2016.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float for the six months ended 30 June 2016.

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

23 August 2016, Hong Kong

As at the date of this announcement, the directors of the Company are as follows:

Executive Directors:

Dr. CHEN Yuhong (*Chairman and Chief Executive Officer*), Dr. TANG Zhenming

Non-executive Director:

Dr. ZHANG Yaqin, Mr. Samuel Thomas GOODNER

Independent Non-executive Directors:

Mr. ZENG Zhijie, Dr. LEUNG Wing Yin, Dr. LAI Guanrong

* *For identification purpose only*