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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 2014

HIGHLIGHTS

Results for the first half of 2014

Income statement highlights	For the six months ended 30 June		% Increase (over the same period last year)
	(unaudited) 2014	(unaudited) 2013	
	RMB'000	RMB'000	
Revenue	1,937,639	1,371,671	41.3%
Revenue from service	1,909,225	1,346,810	41.8%
Gross profit	581,198	407,240	42.7%
Profit for the period	115,088	80,698	42.6%
Profit attributable to Owners of the Group	101,265	72,309	40.0%
EBITDA	229,907	156,618	46.8%
Basic EPS (RMB cents)	5.45	4.20	29.7%
Statement of financial position highlights	(unaudited) 30 June 2014	(audited) 31 December 2013	% Increase
	RMB'000	RMB'000	
Total assets	4,719,627	4,672,957	1.0%
Total liabilities	(2,163,443)	(2,231,756)	(3.1%)
Total equity	<u>2,556,184</u>	<u>2,441,201</u>	4.7%

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014.
- No closure for the Register of Members of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY OPERATING DATA

General Overview

The key operating data (unaudited) for six months ended 30 June 2014 are:

	Six Months Ended 30 June		
	2014	2013	Growth
	<i>RMB'000</i>	<i>RMB'000</i>	Rate
Revenue	1,937,639	1,371,671	41.3%
<i>Service revenue</i> *	<i>1,909,225</i>	<i>1,346,810</i>	41.8%
Cost of sales	(1,356,441)	(964,431)	40.6%
Gross profit	581,198	407,240	42.7%
Other income, gains and losses	20,920	38,213	(45.3%)
Selling and distribution expenses	(102,160)	(79,307)	28.8%
Administrative expenses	(299,977)	(235,064)	27.6%
Allowance for doubtful debts	(298)	261	N/A
Amortization of intangible assets and prepaid lease payments	(40,350)	(25,255)	59.8%
Finance costs	(35,528)	(20,413)	74.0%
Share of results of associates	363	493	(26.4%)
Profit before taxation	124,168	86,168	44.1%
Taxation	(9,080)	(5,470)	66.0%
Profit for the period	115,088	80,698	42.6%
+Taxation	9,080	5,470	66.0%
+Finance Costs	35,528	20,413	74.0%
+Depreciation of property, plant and equipments	30,224	25,275	19.6%
+Amortization of intangible assets and prepaid lease payments	40,350	25,255	59.8%
–Share of results of associates	363	493	(26.4%)
EBITDA*	229,907	156,618	46.8%
+Share option expenses	8,153	2,704	201.5%
+Foreign exchange loss (gain)	–	(10)	N/A
+(Reversal of) Allowance for doubtful debts	298	(261)	N/A
Business contribution profit**	238,358	159,051	49.9%

The revenue and service revenue of the Group's different business lines for six months ended 30 June 2014 are:

	Revenue			Service Revenue			Results		
	Six Months Ended 30 June		Growth Rate	Six Months Ended 30 June		Growth Rate	Six Months Ended 30 June		Growth Rate
	2014 RMB '000	2013 RMB '000		2014 RMB '000	2013 RMB '000		2014 RMB '000	2013 RMB '000	
Professional Services Business (PSG)	779,705	629,490	23.9%	751,291	604,629	24.3%	83,778	64,982	28.9%
Outsourcing Services Business (OSG)	960,495	660,601	45.4%	960,495	660,601	45.4%	71,574	50,782	40.9%
Emerging Services Business (ESG)	149,991	34,462	335.2%	149,991	34,462	335.2%	16,891	2,712	522.9%
Training Business	47,448	47,118	0.7%	47,448	47,118	0.7%	1,706	1,694	0.7%
Total	1,937,639	1,371,671	41.3%	1,909,225	1,346,810	41.8%	173,949	120,170	44.8%

In terms of service revenue, the PSG, OSG, and ESG achieved a YOY growth of 24.3%, 45.4%, and 335.2% respectively. The ETC's service revenue maintained the same level from last year.

For PSG, finance, banking, and insurance businesses' revenue increased, contributing to the overall professional services results. For OSG, Huawei and the greater China businesses' revenue increased rapidly, providing growth to the overall outsourcing services results. For ESG, the cloud, mobile Internet product and services businesses grew rapidly, allowing the ESG achieve significant growth from last year.

During the reporting period, the overall results achieved a YOY growth of 44.8%, higher than the YOY revenue and service revenue growth of 41.3% and 41.8% respectively.

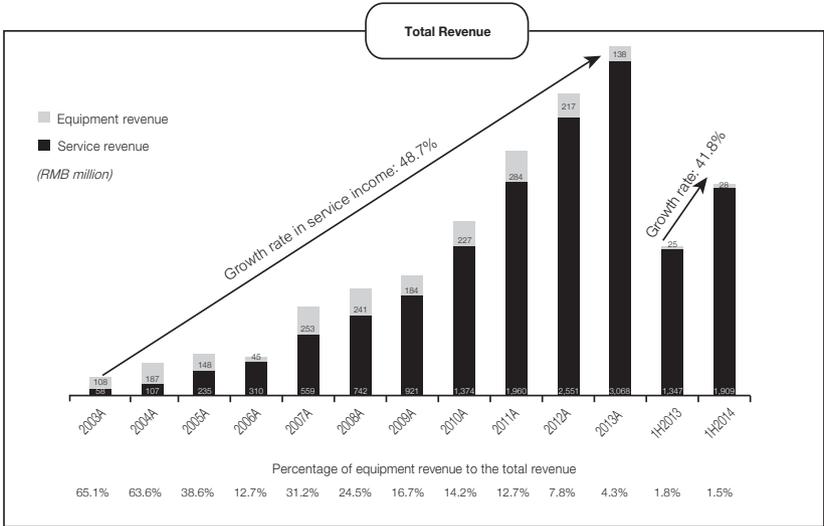
Of which, the PSG results achieved a YOY growth of 28.9%, higher than the YOY service revenue growth of 23.9%. This is primarily because part of the PSG used the JointForce platform to increase personnel utilization, contributing to the increased margins of the PSG.

The OSG results achieved a YOY growth of 40.9%, lower than the OSG service revenue's YOY growth of 45.4%. The primary reason is because during the reporting period the government subsidies and other income were lower than that of last year.

The ESG’s results achieved a YOY growth of 522.9%, significantly higher than the ESG service revenue’s YOY growth of 335.2%. The primary reason is because last year was the developmental year for ESG, and a lot of capital went into market research, resulting in lower margins. During the reporting period, ESG’s margins returned to normal.

The Group strongly believes that with the launch and promotion of the JointForce platform, the Group’s gross margin and operating margins will continue to improve and increase the overall revenue and results.

Since listing on the Growth Enterprise Market in 2003, the revenue and service revenue have maintained rapid growths. The Group recorded a CAGR of 34.5 % for revenue, and a CAGR of 48.7% for service revenue from 2003 to 2013. The Group recorded a YOY service revenue growth of 41.8% for six months ended 30 June 2014. The details are as follow:



Customers

For the six month ended 30 June 2014, the service revenue from the top five customers accounted for 44.2% of the Group’s total service revenue, and the service revenue from the top ten customers accounted for 49.3% of the Group’s total service revenue.

For the six months ended 30 June 2014, the Group had 1411 active customers, of which 473 of them are new customers. In the last four quarters, there are 68 customers that generated more than RMB6 million for the Group.

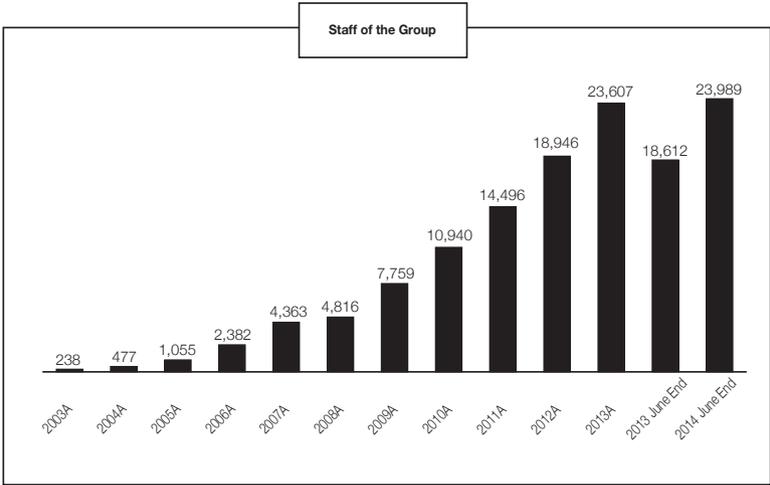
Market

The Group’s businesses are mainly focused in the Greater China market. For the six months ended 30 June 2014, the Group continued to view the Greater China market as a key market for development. China’s strong economic growth and the immense market potentials will lead to long term growth opportunities for the Group. Meanwhile, several of the Group’s multinational corporation also stated that China will be an important aspect of their global footprints. This shows that they have confidence in the Chinese economy, and will provide expansion opportunities for the Group. In addition, the Group will continue to expand oversea through Catapult Systems.

Human Resources:

As of 30 June 2014, the Group has a total of 23,989 employees, representing an increase of 28.9% from same reporting period last year (18,612 employees). The 28.9% increase of employees is far less than the 41.8% increase of service revenue, meaning the Group was able to achieve a higher efficiency because of the JointForce platform during the reporting period.

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



Profitability:

For the six months ended 30 June 2014, the Group's EBITDA was RMB229.907 million, representing a YOY growth of 46.8% (for the six months ended 30 June 2013: RMB156.618 million). The EBITDA margin increased 0.5% to 11.9%, (for the six months ended 30 June 2013: 11.4%). The EBITDA to service revenue margin increased 0.4% to 12.0% (for the six months ended 30 June 2013: 11.6%). The details on profit and EBITDA during the reporting period is as follows:

<i>RMB'000</i>	Six Months Ended 30 June		Growth Rate
	2014	2013	
Profit for the period	115,088	80,698	42.6%
+Taxation	9,080	5,470	66.0%
+Finance costs	35,528	20,413	74.0%
+Depreciation of property, plant and equipment	30,224	25,275	19.6%
+Amortization of intangible assets and prepaid lease payments	40,350	25,255	59.8%
–Share of results of associates	363	493	(26.4%)
EBITDA	229,907	156,618	46.8%

In order to help the shareholders and investors to more easily identify the operating results of the Group when reading reports from different reporting periods, and comparing results to competitors, the Group removed any non business related, non cash related items (for eg., share option expenses, net foreign exchange, and provision for doubtful debts) to calculate the profit contribution from business. The Group's business contribution profit was RMB238.358 million, representing a 49.9% YOY growth (for the six months ended 30 June 2013: RMB159.051 million). The details of EBITDA to business contribution profit is as follows:

<i>RMB'000</i>	Six Months Ended 30 June		Growth Rate
	2014	2013	
EBITDA	229,907	156,618	46.8%
+Share option expenses	8,153	2,704	201.5%
+Net foreign exchange (gain) loss	–	(10)	N/A
+(Reversal of) Allowance for doubtful debts	298	(261)	N/A
Business contribution profit	238,358	159,051	49.9%

For the six months ended 30 June 2014, the business contribution profit margin increased by 0.7% to 12.3% (for the six months ended 30 June 2013: 11.6%) and the business contribution margin (to service revenue) increased by 0.7% to 12.5% (for the six months ended 30 June 2013: 11.8%).

Operating Results

The following chart is the Group's consolidated statement of comprehensive income for the six months ended 30 June 2013, 2014 (unaudited):

	Six Months Ended 30 June 2014 RMB '000	Percentage of Revenue	Percentage of Service revenue	Six Months Ended 30 June 2013 RMB '000	Percentage of Revenue	Percentage of Service Revenue
Revenue	1,937,639			1,371,671		
Service revenue	1,909,225			1,346,810		
Cost of sales	(1,356,441)	(70.0%)	-	(964,431)	(70.3%)	-
Gross Profit	581,198	30.0%	30.4%	407,240	29.7%	30.2%
Other income, gains and losses	20,920	1.1%	1.1%	38,213	2.8%	2.8%
Selling and distribution expenses	(102,160)	(5.3%)	(5.4%)	(79,307)	(5.8%)	(5.9%)
Administrative expenses	(299,977)	(15.5%)	(15.7%)	(235,064)	(17.1%)	(17.5%)
Allowance for doubtful debts	(298)	(0.02%)	(0.02%)	261	0.02%	0.02%
Amortization of intangible assets and prepaid lease payments	(40,350)	(2.1%)	(2.1%)	(25,255)	(1.8%)	(1.9%)
Finance costs	(35,528)	(1.8%)	(1.9%)	(20,413)	(1.5%)	(1.5%)
Share of results of associates	363	0.02%	0.02%	493	0.04%	0.04%
Profit before taxation	124,168	6.4%	6.5%	86,168	6.3%	6.4%
Taxation	(9,080)	(0.5%)	(0.5%)	(5,470)	(0.4%)	(0.4%)
Profit for the period	115,088	5.9%	6.0%	80,698	5.9%	6.0%

Revenue:

For six months ended 30 June 2014, the Group's revenue was RMB1,937.639 million, representing a 41.3% YOY growth (for the six months ended 30 June 2013: RMB1,371.671 million). The Group's service revenue was RMB1,909.225 million, representing a YOY growth of 41.8% (for the six months ended 30 June 2013: RMB1,346.810 million). The main source of growth comes from the rapid growth of outsourcing business and the emerging service business.

The increase of revenue in finance, banking, and insurance businesses contributed greatly to the growth of the overall PSG.

Revenues from Huawei businesses and Greater China market have achieved rapid growth and contributed greatly to the growth of the overall OSG.

The cloud computing, mobile Internet product and services businesses have seen significant growth, helping the entire ESG achieve higher growth.

The ETC's revenue is steady and essentially the same as last year, contributing only a small portion to the overall Group.

The comparison of the Group's service revenue by businesses for the six months ended 30 June 2014, 2013 is as follows:

<i>RMB'000</i>	Six Months Ended 30 June 2014	%	Six Months Ended 30 June 2013	%	Growth Rate
Professional Services Business (PSG)	751,291	39.4%	604,629	44.9%	24.3%
Outsourcing Services Business (OSG)	960,495	50.3%	660,601	49.0%	45.4%
Emerging Services Business (ESG)	149,991	7.9%	34,462	2.6%	335.2%
Training Business	47,448	2.4%	47,118	3.5%	0.7%
Total Service Revenue	1,909,225	100%	1,346,810	100%	41.8%

The comparison of the Group's service revenue by contract models for the six months ended 30 June 2014, 2013 is as follows:

<i>RMB'000</i>	Six Months Ended 30 June 2014	%	Six Months Ended 30 June 2013	%
Service revenue	1,909,225		1,346,810	
Fixed price	877,439	46.0%	663,618	49.3%
Time and material	1,024,549	53.6%	653,196	48.5%
Quantity – based	7,237	0.4%	29,996	2.2%
Total	1,909,225	100%	1,346,810	100%

Main Business Costs:

For the six months ended 30 June 2014, the Group's main business costs accounted for 70.0% of the revenue, representing a YOY decrease of 0.3% (for the six months ended 30 June 2013: 70.3%). The Group's main business costs were RMB1,356.441 million, representing a YOY growth of 40.6% (for the six months ended 30 June 2013: RMB964.431 million).

Gross Profit:

For the six months ended 30 June 2014, the Group's gross profit was RMB581.198 million, representing a YOY growth of 42.7% (for the six months ended 30 June 2013: RMB407.240 million). The Group's gross profit margin was 30.0%, representing a YOY growth of 0.3% (for the six months ended 30 June 2013: 29.7%). The Group's gross profit margin for service revenue was 30.4%, representing a YOY growth of 0.2% (for the six months ended 30 June 2013: 30.2%). The Group's gross profit margin increased slightly because of the JointForce platform that increased the employees' efficiency.

Other Income, Gains and Losses

For the six months ended 30 June 2014, the Group's other income was RMB20.920 million, representing a YOY loss of 45.3% (for the six months ended 30 June 2013: RMB38.213 million). The main reason for the loss is because of government grant received was lower than that of the last corresponding reporting period.

Operating Expenses

For the six months ended 30 June 2014, the Group's selling and distribution expenses was RMB102.160 million, representing a YOY growth of 28.8% (for the six months ended 30 June 2013: RMB79.307 million). The selling and distribution expenses amounted to 5.3% of revenue, representing a YOY decrease of 0.5% (for the six months ended 30 June 2013: 5.8%). The selling and distribution expenses amounted to 5.4% of service revenue, representing a YOY decrease of 0.5% (for the six months ended 30 June 2013: 5.9%). This shows the Group's increased its operating efficiency.

The Group's administrative expenses were RMB299.977 million, representing a YOY growth of 27.6% (for the six months ended 30 June 2013: RMB235.064 million). The administrative expenses amounted to 15.5% of the revenue, representing a YOY decrease of 1.6% (for the six months ended 30 June 2013: 17.1%). The administrative expenses amounted to 15.7% of the service revenue, representing a YOY decrease of 1.8% (for the six months ended 30 June 2013: 17.5%). This is mainly due to the Group's foundation of business operating support platform is coming to effect and the JointForce platform that allowed the Group to implement a flat management style.

EBITDA and Business Profit

For the six months ended 30 June 2014, the Group's EBITDA was RMB229.907 million, representing a YOY growth of 46.8% (for the six months ended 30 June 2013: RMB156.618 million). The EBITDA to revenue was 11.9%, representing a YOY growth of 0.5% (for the six months ended 30 June 2013: 11.4%). The EBITDA to service revenue was 12.0%, representing a YOY growth of 0.4% (for the six months ended 30 June 2013: 11.6%).

For the six months ended 30 June 2014, the Group's business profit was RMB238.358 million, representing a YOY growth of 49.9% (for the six months ended 30 June 2013: RMB159.051 million). The Group's business profit accounted for 12.3% of the revenue, representing a YOY growth of 0.7% (for the six months ended 30 June 2013: 11.6%). The Group's business profit accounted for 12.5% of the service revenue, representing a YOY growth of 0.7% (for the six months ended 30 June 2013: 11.8%).

The increase of EBITDA and business profit margins is due to the increase sales of mobile and cloud businesses, internal use of JointForce platform, and improvement in marketing and administrative efficiency.

Finance Costs and Income Tax

For the six months ended 30 June 2014, The Group's finance costs accounted for 1.8% of the revenue, representing a YOY growth of 0.3% (for the six months ended 30 June 2013: 1.5%). The Group's finance costs were RMB35.528 million, representing a YOY growth of 74.0% (for the six months ended 30 June 2013: RMB20.413 million); the increase of finance costs is attributable the interests payments from the syndicated bank loans.

For the six months ended 30 June 2014, the Group's income tax accounted for 0.5% of the revenue, representing a YOY growth of 0.1% (for the six months ended 30 June 2013: 0.4%). The Group's income tax was RMB9.080 million, representing a YOY growth of 66% (for the six months ended 30 June 2013: RMB5.470 million); the growth is due to a more favorable tax treatment from the government (software companies and joint ventures) in last corresponding reporting period and a decrease in tax refund in current reporting period.

Other Non-Cash Expenses

For the six months ended 30 June 2014, the Group's depreciation of property, plant and equipments to revenue was 1.6%, representing a YOY decrease of 0.2% (for the six months ended 30 June 2013: 1.8%). The Group's depreciation of property, plant and equipments expenses were RMB30.224 million, representing a YOY growth of 19.6% (for the six months ended 30 June 2013: RMB25.275 million); the increase of depreciation expenses is due to the increase of fixed assets to meet the Group's personnel expansion, but the decrease of depreciation to revenue margin shows that the Group's management efficiency is increasing.

For the six months ended 30 June 2014, the Group's amortization of intangible assets to revenue was 2.1%, representing a YOY growth of 0.3% (for the six months ended 30 June 2013: 1.8%). The Group's amortization of intangible assets was RMB40.350 million, representing a YOY growth of 59.8% (for the six months ended 30 June 2013: RMB25.255 million); the increase is due to the amortization of the newly acquired company and businesses at the end of 2013.

For the six months ended 30 June 2014, the Group's share option expenses to revenue was 0.4%, representing a YOY growth of 0.2%, (for the six months ended 30 June 2013: 0.2%). The Group's share option expenses was RMB8.153 million, representing a YOY growth of 201.5% (for the six months ended 30 June 2013: RMB2.704 million); the increase is due to the issuance of 110 million shares during the reporting period was amortized.

The Group's allowance for doubtful debts was RMB298,000, compared to last year's reversal of allowance for doubtful debts of corresponding period of RMB261,000. It only accounted for 0.02% of the Group's revenue.

Profit for the Period and Earnings Per Share

For the six months ended 30 June 2014, the Group's profit was RMB115.088 million, representing a YOY growth of 42.6% (for the six months ended 30 June 2013: RMB80.698 million). The profit to revenue and service revenue was 5.9% and 6.0% respectively, same as that of the last corresponding reporting period.

Excluding the profit attributable to minority shareholders for the six months ended 30 June 2014, the Group's profit attributable to shareholders was RMB101.265 million, representing a YOY growth of 40% (for the six months ended 30 June 2013: RMB72.309 million).

Based on the profit attributable to the shareholders, the Group's basic earnings per share for the six month ended 30 June 2014 was RMB5.45 cents, representing a YOY growth of 29.7% (for the six months ended 30 June 2013: RMB4.2 cents).

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, 2014 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June,	
	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Turnover	3	1,937,639	1,371,671
Cost of sales		(1,356,441)	(964,431)
Gross profit		581,198	407,240
Other income, gains and losses		20,920	38,213
Selling and distribution costs		(102,160)	(79,307)
Administrative expenses		(299,977)	(235,064)
Allowance for doubtful debts		(298)	261
Amortisation of intangible assets		(40,350)	(25,255)
Finance costs	4	(35,528)	(20,413)
Share of result of associates		363	493
Profit before taxation		124,168	86,168
Taxation	5	(9,080)	(5,470)
Profit for the period		115,088	80,698
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		4,184	2,411
Total comprehensive income for the period		119,272	83,109
Profit for the period attributable to:			
Owners of the Company		101,265	72,309
Non-controlling interests		13,823	8,389
		115,088	80,698
Total comprehensive income attributable to:			
Owners of the Company		105,458	74,728
Non-controlling interests		13,814	8,381
		119,272	83,109
Earnings per share	7		
– Basic (cents)		5.45	4.20
– Diluted (cents)		5.36	4.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June, 2014 RMB'000	(Audited) 31 December, 2013 RMB'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		205,063	174,186
Intangible assets		329,113	280,649
Goodwill		970,064	936,988
Interests in associates		30,174	13,519
Available-for-sale investment		54,376	25,000
Prepaid lease payments		41,410	41,482
Deposits paid for investment in an associate		–	14,850
Derivative financial instruments		649	649
Deferred tax assets		10,390	10,389
		1,641,239	1,497,712
Current assets			
Inventories		24,535	19,883
Trade and other receivables	8	1,429,869	1,146,646
Prepaid lease payments		1,010	1,009
Amounts due from customers for contract work		1,240,389	1,060,869
Amount due from related companies		–	814
Pledged deposits		333	5,201
Bank balances and cash		382,252	940,823
		3,078,388	3,175,245
Current liabilities			
Trade and other payables	9	702,709	741,528
Bills payable		2,483	3,387
Amounts due to customers for contract work		115,138	217,410
Amounts due to related companies		–	9,196
Dividend payable to shareholders		74	73
Taxation payable		32,410	28,303
Borrowings		381,775	471,328
Consideration payable on acquisition of a business		28,725	–
		1,263,314	1,471,225
Net current assets		1,815,074	1,704,020
Total assets less current liabilities		3,456,313	3,201,732

		(Unaudited) 30 June, 2014 <i>RMB'000</i>	(Audited) 31 December, 2013 <i>RMB'000</i>
	<i>Notes</i>		
Non-current liabilities			
Deferred tax liabilities		32,536	17,589
Consideration payable on acquisition of a subsidiary		35,636	35,636
Convertible loan notes		186,135	189,038
Borrowings		645,822	518,268
		<u>900,129</u>	<u>760,531</u>
		<u>2,556,184</u>	<u>2,441,201</u>
Capital and reserves			
Share capital	10	87,926	87,085
Share premium		1,687,276	1,667,181
Reserves		621,462	513,957
		<u>2,396,664</u>	<u>2,268,223</u>
Equity attributable to equity holders of the Company		2,396,664	2,268,223
Non-controlling interests		159,520	172,978
		<u>2,556,184</u>	<u>2,441,201</u>
Total equity		<u>2,556,184</u>	<u>2,441,201</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	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve fund	Total	Accumulated fund	Non-controlling interests	Total
						loan notes fund							
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	RMB'000
At 1 January, 2013	81,804	1,466,006	-	(1,933)	69,758	15,167	15,793	26,749	29,072	225,208	1,927,624	134,659	2,062,283
Profit for the period	-	-	-	-	-	-	-	-	-	72,664	72,664	8,389	81,053
Exchange differences arising from translation of overseas operations	-	-	-	2,419	-	-	-	-	-	-	2,419	(8)	2,411
Total comprehensive income for the period	-	-	-	2,419	-	-	-	-	-	72,664	75,083	8,381	83,464
Acquisition of business	2,573	86,019	-	-	-	-	-	-	-	-	88,592	-	88,592
Acquisition of additional equity interest in subsidiary	197	11,512	-	-	-	-	-	-	-	-	11,709	(13,825)	(2,116)
New issue of shares upon exercise of share option	93	2,444	-	-	(562)	-	-	-	-	-	1,975	-	1,975
Recognition of equity-settled share based payments	-	-	-	-	2,704	-	-	-	-	-	2,704	-	2,704
Appropriations	-	-	-	-	-	-	549	-	1,165	(2,068)	(354)	354	-
At 30 June, 2013	84,667	1,565,981	-	486	71,900	15,167	16,342	26,749	30,237	295,804	2,107,333	129,569	2,236,902
At 1 January, 2014	87,085	1,667,181	649	(9,767)	38,813	30,391	15,793	26,749	49,662	361,667	2,268,223	172,978	2,441,201
Profit for the period	-	-	-	-	-	-	-	-	-	101,265	101,265	13,823	115,088
Exchange differences arising from translation of overseas operations	-	-	-	4,193	-	-	-	-	-	-	4,193	(9)	4,184
Total comprehensive income for the period	-	-	-	4,193	-	-	-	-	-	101,265	105,458	13,814	119,272
Acquisition of additional equity interest in subsidiary	-	(3,675)	-	-	-	-	-	-	-	-	(3,675)	(27,272)	(30,947)
New issue of shares upon exercise of share option	841	23,770	-	-	(6,106)	-	-	-	-	-	18,505	-	18,505
Recognition of equity-settled share based payments	-	-	-	-	8,153	-	-	-	-	-	8,153	-	8,153
At 30 June, 2014	87,926	1,687,276	649	(5,574)	40,860	30,391	15,793	26,749	49,662	462,932	2,396,664	159,520	2,556,184

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended	
	30 June,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(426,864)	(300,290)
Net cash used in investing activities	(168,234)	(117,701)
Net cash generated from financial activities	32,335	158,545
Net decrease in cash and cash equivalents	(562,763)	(259,446)
Effect of foreign exchange rate changes	4,192	(1,339)
Cash and cash equivalents at the beginning of the period	940,823	774,847
Cash and cash equivalents at the end of the period	382,252	514,062

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, 2013.

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 HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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.

Specifically, the Group's reportable segments are as follows:

1. Professional Services Business (PSG)
2. Outsourcing Services Business (OSG)
3. Emerging Services Business (ESG)
4. Training Business

Information regarding the above segments is reported below.

Segment revenues and results

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

	For the six months ended 30 June,			
	Segment revenue		Segment results	
	2014	2013	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Professional Services Business (PSG)	779,705	629,490	83,778	64,982
Outsourcing Services Business (OSG)	960,495	660,601	71,574	50,782
Emerging Services Business (ESG)	149,991	34,462	16,891	2,712
Training Business	47,448	47,118	1,706	1,694
	<u>1,937,639</u>	<u>1,371,671</u>	<u>173,949</u>	<u>120,170</u>

Segment revenue by products and services:

	For the six months ended 30 June,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of software and hardware products	28,414	24,861
Professional Services Business (PSG)	751,291	604,629
Outsourcing Services Business (OSG)	960,495	660,601
Emerging Services Business (ESG)	149,991	34,462
Training Business	47,448	47,118
	1,909,225	1,346,810
	1,937,639	1,371,671

Reconciliation of segment results to profit (loss) before taxation:

	For the six months ended 30 June,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	173,949	120,170
Other income, gains and losses	258	2,551
Loan interest	(7,832)	–
Corporate expenses	(27,493)	(27,124)
Share option expenses	(8,153)	(2,704)
Effective interest on convertible loan notes	(6,561)	(6,725)
Profit before taxation	124,168	86,168

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

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

4. FINANCE COSTS

	For the six months ended 30 June,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings wholly repayable within five years	28,967	13,688
Effective interest on convertible loan notes	6,561	6,725
	<u>35,528</u>	<u>20,413</u>

5. TAXATION

	For the six months ended 30 June,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Tax charge comprises:		
PRC Enterprise Income Tax	8,720	5,325
Hong Kong Profits Tax	–	–
The US Federal and State Income taxes	184	145
Japan Income Tax	176	–
	<u>9,080</u>	<u>5,470</u>

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, 2013 and interim dividend for the period ended 30 June, 2014 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,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of calculating basic and diluted earnings per share	101,265	72,309
	Number of shares	
	2014	2013
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,859,301,250	1,720,162,999
Effect of dilutive potential ordinary shares: Issuable under the Company's share option scheme	28,780,395	21,157,112
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,888,081,645	1,741,320,111

The computation of diluted earnings per share for the period ended 30 June 2013 and 30 June 2014 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, 2014 <i>RMB'000</i>	(Audited) 31 December, 2013 <i>RMB'000</i>
Trade receivables	635,819	592,872
Less: Allowance for doubtful debts	(118,897)	(118,599)
	<u>516,922</u>	<u>474,273</u>
Trade receivables from related companies	565,225	339,820
	<u>1,082,147</u>	<u>814,093</u>
Advances to suppliers	205,466	157,334
Deposits, prepayments and other receivables	142,256	175,219
	<u>1,429,869</u>	<u>1,146,646</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, 2014 <i>RMB'000</i>	(Audited) 31 December, 2013 <i>RMB'000</i>
Within 90 days	721,225	505,616
Between 91-180 days	195,615	164,053
Between 181-365 days	90,412	74,929
Between 1-2 years	65,860	69,196
Over 2 years	9,035	299
	<u>1,082,147</u>	<u>814,093</u>

The fair value of the Group's trade and other receivables at 30 June, 2014 was approximately equal to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June, 2014 <i>RMB'000</i>	(Audited) 31 December, 2013 <i>RMB'000</i>
Trade payables	356,417	377,471
Trade payable to a related company	—	—
	<u>356,417</u>	<u>377,471</u>
Deposits received from customers	37,343	65,571
Other payables and accrued charges	308,949	298,486
	<u>702,709</u>	<u>741,528</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, 2014 <i>RMB'000</i>	(Audited) 31 December, 2013 <i>RMB'000</i>
Within 90 days	207,890	182,056
Between 91-180 days	29,209	36,900
Between 181-365 days	18,696	106,461
Between 1-2 years	77,542	34,282
Over 2 years	23,080	17,772
	<u>356,417</u>	<u>377,471</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, 2014 was approximately equal to the corresponding carrying amount.

10. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

		Number of shares	Nominal amount HK\$
Authorised			
At 1 January, 2013, 30 June, 2013, 1 January, 2014 and 30 June, 2014		4,000,000,000	200,000,000
		<u>4,000,000,000</u>	<u>200,000,000</u>
			Amount shown in the financial statements RMB'000
	Number of shares	Nominal amount HK\$	
Issued and fully paid			
At 1 January, 2013	1,718,364,659	85,918,233	81,804
Exercise of options	2,310,000	115,500	93
Issued in consideration for the acquisition of a business	64,588,274	3,229,414	2,573
Issued in consideration for the acquisition of additional equity interest of a subsidiary	4,926,000	246,300	197
	<u>1,790,188,933</u>	<u>89,509,447</u>	<u>84,667</u>
At 30 June, 2013	1,790,188,933	89,509,447	84,667
Exercise of options	60,986,350	3,049,318	2,418
	<u>1,851,175,283</u>	<u>92,558,765</u>	<u>87,085</u>
At 31 December, 2013 and 1 January, 2014	1,851,175,283	92,558,765	87,085
Exercise of options	21,425,000	1,071,250	841
	<u>1,872,600,283</u>	<u>93,630,015</u>	<u>87,926</u>
At 30 June, 2014	1,872,600,283	93,630,015	87,926

11. 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.

12. RELATED PARTY TRANSACTIONS

- (i) During the relevant periods in 2013 and 2014, the Group had the following transactions with the following related parties:

		For the six month ended 30 June,	
		2014	2013
	Note	RMB'000	RMB'000
Provision of IT outsourcing services – Huawei Group	(a)	596,070	308,810

Note:

- (a) Huawei is the non-controlling owner of 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.

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.

13. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB1,332,000,000, including the directors' emoluments of approximately RMB2,061,000 during the six months ended 30 June, 2014 (2013: approximately RMB910,001,000, including the directors' emoluments of approximately RMB2,283,000). The increase in employee remuneration resulted from the increase in the number of employees from 18,612 to 23,989.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June, 2014 of the Group amounted to approximately RMB40,350,000 (2013: RMB25,255,000) and approximately RMB30,224,000 (2013: RMB25,275,000), respectively.

DIRECTORS' INTERESTS IN SHARES

As 30 June, 2014, 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, 2014
Zhao John Huan	335,076,453	17.89%
Chen Yuhong	170,993,039	9.13%
Tang Zhenming	13,127,765	0.70%
Wang Hui	6,277,838	0.34%
Zeng Zhijie	365,000	0.02%

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 1 January, 2014	No. of share options exercised during the period	No. of share options outstanding as at 30 June, 2014	Percentage of total issued ordinary share capital of the Company as at 30 June, 2014	No of underlying ordinary shares interested in	<i>Note</i>
Tang Zhenming	0.97	800,000	–	800,000	0.04%	2,800,000	(1)
	1.78	2,000,000	–	2,000,000	0.11%		(2)
Wang Hui	1.78	1,200,000	–	1,200,000	0.06%	1,200,000	(2)
Zeng Zhijie	1.78	385,000	–	385,000	0.02%	385,000	(2)

Notes:

- (1) These share options were offered on 30 March, 2006 under the Share Option Scheme and accepted on 27 April, 2006. 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
30/03/2006	29/03/2016	25% of the total number of share options granted
30/03/2007	29/03/2016	25% of the total number of share options granted
30/03/2008	29/03/2016	25% of the total number of share options granted
30/03/2009	29/03/2016	25% of the total number of share options granted

- (2) These share options were offered on 10 April, 2007 under the Share Option Scheme 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

SHARE OPTION SCHEME

As at 30 June, 2014, there were share options to subscribe for an aggregate of 155,430,000 Shares granted to certain Directors and employees of the Group pursuant to the Share Option Scheme outstanding.

During the six months ended 30 June, 2014, an aggregate of 21,425,000 share options were exercised, an aggregate of 6,500,000 share options were lapsed and an aggregate of 110,000,000 share options were granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June, 2014 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June, 2014 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, 2014, 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, 2014.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June, 2014, 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 and Corporate Governance Report of the Listing Rules (the “Code”) 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 Code from 1 January, 2014 to 30 June, 2014, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 19 May, 2014 (the “2013 AGM”) (deviated from code provision E.1.2) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2013 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).

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, 2014.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June, 2014, 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
Keen Insight Limited (“Keen Insight”) (Note 1)	Beneficial interest	335.08	17.89%	16.85%
Hony Capital Fund 2008, L.P. (Note 1)	Interest of controlled corporation	335.08	17.89%	16.85%
Hony Capital Fund 2008 GP L.P. (Note 1)	Interest of controlled corporation	335.08	17.89%	16.85%
Hony Capital Fund 2008 GP Limited (Note 1)	Interest of controlled corporation	335.08	17.89%	16.85%
Hony Capital Management Limited (“Hony Capital”) (Note 1)	Interest of controlled corporation	335.08	17.89%	16.85%
Hony Managing Partners Limited (Note 1)	Interest of controlled corporation	335.08	17.89%	16.85%
Zhao John Huan (Note 1)	Interest of controlled corporation	335.08	17.89%	16.85%
Greater Pacific Capital Partners, LP (“GPC”) (Note 2)	Beneficial interest	119.27	6.37%	6.00%
EJF Capital LLC (“EJF”) (Note 3)	Beneficial interest	116.40	6.22%	5.85%
Far East Holdings International Limited (“Far East Holdings”) (Note 4)	Beneficial interest	113.40	6.06%	5.70%
Microsoft Corporation (“Microsoft”) (Note 5)	Beneficial interest	97.25	5.19%	4.89%

* The total number of issued share consists of 1,872,600,283 Ordinary Shares and 116,404,949 Convertible Notes, which could be converted into 116,404,949 Ordinary Shares.

Notes:

1. Mr. Zhao John Huan is deemed to be interested in 335,076,453 shares and through Hony Managing Partners Limited, which is wholly owned by Mr. Zhao John Huan. Hony Managing Partners Limited owns 80% of Hony Capital. Hony Capital wholly owns Hony Capital Fund 2008 GP Limited, which controls Hony Capital Fund 2008 GP, L.P.. Hony Capital Fund 2008 GP, L.P. controls Hony Capital Fund 2008, L.P., which holds the entire issued share capital of Keen Insight.
2. GPC is interested in interested in 119,268,639 Ordinary Shares.
3. EJV is an investment advisor registered under the Securities and Exchange Commission of the United States of America. EJV is interested in 116,404,949 Ordinary Shares which could be issued upon the full conversion of the Convertible Notes in the principal amount of RMB 200 million took place on 29 November 2010.
4. Far East Holdings is interested in 113,399,822 Ordinary Shares.
5. Microsoft is interested in 97,250,000 Ordinary Shares which was converted on 30 December 2011 from 97,250,000 series A preferred shares of HK\$0.05 each in the capital of the Company (“Series A Preferred Shares”) allotted and issued on 6 January 2006.

Save as disclosed above, as at 30 June, 2014, 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, 2014, 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 two independent non-executive directors, namely Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. 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, 2014.

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, 2014.

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

29 August, 2014, 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,
Mr. WANG Hui

Non-executive Directors:

Mr. ZHAO John Huan, Dr. ZHANG Yaqin, Mr. LIN Sheng

Independent Non-executive Directors:

Mr. ZENG Zhijie, Dr. LEUNG Wing Yin, Dr. SONG Jun

* *For identification purpose only*