

INTERIM REPORT

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Chinasoft International Limited
中軟國際有限公司*

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

* for identification purpose only

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2 HIGHLIGHTS

Results for the first half of 2019	For the six months ended 30 June		% Change
	2019 (unaudited) RMB'000	2018 (unaudited) RMB'000	
Income statement highlights			
Revenue	5,538,248	4,813,853	15.0%
Revenue from service	5,493,458	4,770,267	15.2%
Profit for the period	358,967	355,805	0.9%
Profit attributable to Owners of the Company	362,695	358,759	1.1%
Basic EPS (RMB cents)	14.64	14.87	(1.5%)
<ul style="list-style-type: none">• The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019.• No closure for the Register of Members of the Company.			

Dear Investors,

When the interim report was about to be printed, the news of the extreme US tariffs, covering up to US\$500 billion, broke out. There are finally signs that the status quo, which remained unchanged for a hundred years, may experience a shift. From the beginning (of the incident), Huawei's Ren Zhengfei (Ren Zong) made a firm and calm request "Do our own thing well." Our first response was to stand side by side with Huawei. We challenged our employees to "accept the tests that will arise and demonstrate our true values in 2019", and together with "war-ready Huawei" strive forward.

During the reporting period, Gartner released its annual "2018 Global IT Service Market Share Report." According to the report, with more than RMB10 billion of service revenue, Chinasoft International, alongside China Telecom, Alibaba and Huawei, was ranked as the Top 100 Global IT Services ("ITS") Companies. Only four Chinese companies were in this ranking and this is truly a milestone for the Company! From the listing in 2003 to being recognized as one of the Top 100 Global ITS company, we have laid a solid foundation and occupied a leading industry position. Looking from this perspective, we are confident that we will become a global ITS leader in the future. We will continue to transform our thoughts into practical actions, and realize the path and vision of having our own share and recognition in this blue sea that is the global market.

In March, the Company held an annual board meeting in Shanghai. Mr. Zhang Yaqin, President of Baidu, Ms. Gaviella Schuster, Senior Vice President of Microsoft Global Partner, and other company directors, as well as industry leaders such as former CEO of Infosys and former CTO of SAP, Vishal Sikka discussed the business path from tens of billions to hundreds of billions in revenue and reached a consensus on grabbing onto the opportunities coming from cloud intelligence transformation, once again consolidating the Company's development blueprint. The management of the company elaborated the Company's cloud transformation strategy during the Annual General Meeting held in May. The message was clear - seize the cloud opportunity, accelerate digital business, stabilize the cornerstone business, expand the influence of the Jointforce, and continue to move towards our 3-years goal!

During the reporting period, the Company's business expanded in line with our established strategic direction. The main progress is as follows:

1. FOCUS ON CLOUD INTELLIGENCE, ACCELERATE THE DEVELOPMENT OF DIGITAL SERVICES, AND ACHIEVE NON-LINEAR GROWTH BASED ON IP AND ECOSYSTEM

During the first half of 2019, the market experienced a historical special period. First, the macro factors were complex and volatile. To deal with this, the Company actively responded with its financing strategy to increase financing efforts and prevent financial risks. The capital book balance had more than RMB2 billion. Secondly, there was a rise in new opportunities. IDC predicts that the global cloud infrastructure spending will exceed traditional spending for the first time in 2019. During this historical "intersection", we formally established the CIG and increased R&D investment in cloud products and tools, cloud solutions, cloud native professional services etc. We will incubate IPs, integrate ecosystems, and accelerate the construction of a full stack smart cloud service capabilities to create new nonlinear growths.

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Based on this strategic positioning, the CIG executed and achieved good results. In China, the Company has shifted into the “fast lane” (high market traction) of cloud managed services, providing customers with “one-stop” cloud services including consultation, migration, operation and maintenance, and becoming the first advocate of digital transformation that is close to the customers. As Huawei's first “sailing on the same boat” partner, the Company's intelligent customer service, data governance, smart credit and other industry solutions have been incorporated into Huawei Cloud Marketplace, and obtained nearly 1,000 paying customers. Furthermore, solutions including smart parks and smart retails have also been introduced to the market, laying a good foundation for large-scale replication.

During the reporting period, the Company became first batch of strategic partners of Huawei's Kunpeng Cloud. The Company carried out in-depth cooperation with them including 1) building a central computing model to increase Kunpeng's service value and 2) building Kungpen's ecosystem through Jointforce. In the overseas market, Catapult, our subsidiary, accelerated its digital transformation. Its “Digital Solution as a Service” subscription revenue has accounted for 50% of its revenue. Azure Management Service, its subscription-based cloud managed service, is widely recognized in the market and has achieved rapid growth. Fuse, Catapult's solution, added a new function to help improve Yammer's team coordination, helping Fuse to reach a new revenue high.

2. IMPROVE BUSINESS QUALITY AND VALUE, CONTINUE TO INNOVATE, AND STRIVE TO STABILIZE THE CORNERSTONE BUSINESS

“To provide a higher quality and more valuable RMB10 billion services to our clients” was a small goal that the Company put forward to the cornerstone business at the beginning of the year. During the first half of the year, the Company's Huawei business overcame market volatility, and focused on building capabilities and increasing quality. With the opportunity of the SD plan (supplier development plan) with Huawei, the Company continued to improve its business process management in 12 areas including back office, front desk and business. Just like how British Telecommunications offered Huawei this opportunity (more than a decade ago), then Huawei offering it to us, we are not only following the SD program with Huawei, but also imposing it to other top customers including HSBC. We will use the SD requirements to improve our values and quality of services, drive the cornerstone business, and take the Company to next step (level) in three years.

"Transforming the traditional business with the idea of Jointforce" was the innovative thought that the Company came up with at the beginning of the year. During the first half of the year, the Company launched the "Z Plan", an outsourcing ad hoc zone facing medium to long-tail customers on the Jointforce. On one hand, the "Z Plan" is a SaaS service that solves the idle resources issue at an enterprise through its full process and HR control, effectively reducing labor and management costs and improving the middle and long-tail customer experiences. On the other hand, the "Z Plan" helps SMEs to achieve flexible employment with different idle resources. This "Z Plan" is already highly recognized by the market as it falls in line with the demand of the medium and long-tail outsourcing market. Since launched for a few months, there are already more than 400 IT suppliers signed up, serving nearly 100 customers, with an average monthly revenue of close to RMB10 million.

3. FULLY FOCUS AND PROMOTE THE "CLOUD INTEGRATIVE SERVICE" – WE WILL NOT REST UNTIL THE ABSOLUTE SUCCESS OF JOINTFORCE

In recent years, in order to actively adapt to the rapid development of digital information technology and solve the problem of information isolation (like an island or chimney, distant and far from one another) and one port management (one central management) has become the mainstream management mode of government informatization. The "Big Data Bureau" has become one of the focus in the provincial and municipal level of government. Facing the application scenarios and business pain points of this one port management, Jointforce's "Cloud Integrative-Service" launched its "Internet + Software Transactions", life cycle application development management (ADM), big data services, digital supervision and other platform services. Through its one-year market implementation, operation, and delivery, the "Cloud Integrative Service" has been well adapted to the management application scenarios of the one port management. It has been highly recognized by local governments and its market influence continued to expand. In the first half of the year, the "Cloud Integrative Service" exceeded expectations in its existing operations, and the newly adopted businesses were even more eye-catching. In Nanjing and Xi'an, more than 2,000 government units registered onto the "Cloud Integrative Service", servicing more than 300 service projects, and the project amount exceeded RMB100 million. In Guangzhou Baiyun and Chongqing Yubei, the "Cloud Integrative Service" has successfully passed the pilot phase and started operation. Furthermore, the Company reached new strategic cooperation intention with local governments including Wuhan, Chengdu, Wuxi, Changsha and Guizhou.

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During the first half of the year, Jointforce continued to optimize its products and continuously improved its “Cloud Integrative Service” capacity. Furthermore, Jointforce has launched a new AI-based platform authentication function and electronic signature service. Based on the AI big data intelligent recommendation system upgraded version 4.0, data operations continued to improve, and continuously resolving trust, management and efficiency issues in the software transaction process.

Dear investors, the current international situation is complex and volatile. The IT competition among first-tier countries has already begun. It is definitely a fierce challenge, but also an opportunity for leap-forward development. As a leading software and ITS company in China, the Company has actively engaged in the construction of safe, controllable and localized alternatives (made in China solutions), and has reached cooperation with many industry partners. In terms of government administrative middleware, we leveraged our advantages in system migration and application development and complemented each other's capabilities. We will continue to innovate, build our core competitiveness, and push the company's development to a new level.

Dear investors, in the beginning of the year we set to accept the challenges in 2019. We are confident that given our experiences and capabilities, we have what it takes to push forward, persevere among competitions and demonstrate our true values. We will continue to maintain our strategic strengths and edge, make every efforts to overcome any challenge, and rise from those challenge to become a stronger company.

“Home is where the heart belongs, and right now, it belongs with Huawei!” We will overcome the difficulties with Huawei and achieve new heights together!

Chairman
Chen Yuhong

Autumn 2019

1. Intelligent Cloud Business

• Cloud Offerings

During the reporting period, the Group leveraged its years of experience in cloud services to develop its own cloud products, bringing stable and sustainable revenue to the Group.

During the reporting period, the Group's intelligent customer service, Honeycomb diagnosis, data management, smart credit and other industry solutions were incorporated into Huawei Cloud Marketplace. The Group continued to expand into Huawei Cloud's long tail market and gained nearly 1,000 new customers. The consumption of Huawei Cloud doubled. Furthermore, the Group completed the planning and design of the park solution, delivered and brokethrough TCL park solution, and successfully built a "smart store" solution (currently in the process of pre-implementation talks with a number of customers). "Video and Audio Cloud" and "Software Education Cloud", its independently developed audio and video solution based on Tencent Cloud obtained independent intellectual property rights and continued to explore industry clients.

Catapult's investment into sales and marketing last year began to see results. During the reporting period, Spyglass, an intuitive IT security and compliance process solution was recognized by the market and its solution revenue reached a new high. Fuse, Catapult's first as-a-service offering, added team coordinating functions to supplement Microsoft's Team chat software and Yammer, while monitoring sensitive data.

• Cloud Service

During the reporting period, the Group built a corporate cloud service structure, improved cloud professional service capabilities, and continuously improved its cloud business layout.

The Group used Design Thinking (DT) methodology as the traction, leveraged the digital transformation professional consultation, deeply explored the pain points of customer business, and successfully built an end-to-end service system from cloud consulting, cloud migration, cloud implementation, cloud development to cloud management. It has already completed several cloud migration projects for industry leading clients in over ten provinces. The Group achieved breakthroughs in Hong Kong, Singapore, and other regions.

During the reporting period, the Group set up a Japanese Cloud Service team and won the bid for crowd-sharing platform projects and CDN project. The Group established a preliminary cooperation intention with Nomura Research Institute to develop serverless DevOps projects and participated in NEC China Distribution Division's cloud structure solution design. In addition, the Group, as a total integrator and cloud migration technology service provider, through the migration and deployment of a simulation system for establishing a production environment on the public cloud, successfully delivered a key project of production and construction system of a large infrastructure company in China. The annual consumption of cloud resources for this project is up to RMB10 million and is highly praised by customers.

8 RECENT BUSINESS DEVELOPMENT

During the reporting period, the Group's big data business grew rapidly and expanded its blueprints in major industries including finance, airports, one-card access, e-government, and etc. The Group continued to maintain its position in high-tech and automobile industries, and started new businesses in tobacco, real estate, food, and other industries.

During the reporting period, the Group continued to focus in the financial big data industry to provide customers with big data platform, market risk, regulatory and data governance solutions. During the reporting period, the first phase of the market risk capital measurement engine project of a city commercial bank was successfully completed and entered the second phase. During the reporting period, the Group helped more than five large banks in developing big data platforms and data management and control platforms. The Group also helped a number of medium-sized banks and financial institutions in the development and implementation of market risk capital measurement systems. In the insurance field, the Group's big data service business took advantage of the cross-industry synergy of insurance securities, expanded business to several areas and developed innovative R&D solutions. During the reporting period, the real-time indicator system of Sunshine Insurance and Sales was successfully deployed. The solution is highly replicable among property insurance customers through real-time data management TSR. In the data center sector, the Group leveraged its project experience of Taibao Life Insurance, and actively explored different scenarios. During the reporting period, the Pacific Insurance Big Data Project was launched on schedule, completed the first phase of the Taibao Security Health Insurance Intelligent Underwriting, and the China Life Insurance Underwriting Decision-Making System. During the reporting period, with years of core institution business experiences in securities industry, the Group continues to maintain its leading position in securities data service and platform construction field, actively expanding its business in science & technology, investment & financing areas. The Group successfully delivered multiple big data consulting and implementation projects that won the bid in the previous period. The Group constructed industry benchmarking projects such as cloud information service platform and digital information supervision platform, and the Group made innovative attempts and progress in the fields of public opinion, related accounts, and stock price manipulation areas. During the reporting period, the Group participated in the adoption and promotion of data standards in the securities and futures industry, and the breadth and depth of the big data service business in the securities industry has expanded.

During the reporting period, the smart airport business progressed steadily. The Beijing Daxing International Airport Intelligent Data Center project was completed and successfully pass the acceptance as scheduled, becoming a benchmark project for airport digitalization and data center construction. The Big Data Services business will expand data center continuity projects and other intelligent data center projects to other domestic airports. During the reporting period, the Group won the bid for “Information Data Platform” project of Capital Airport Group, including planning, design, consulting etc., extending the data service value chain. This successful experience is expected to be replicated in the airport data center area and expanding to other domestic airport groups. During the reporting period, the West Airport and Wuhan Tianhe Airport projects were successfully launched, providing customers with a platform to support their value operation services in data center, data management, and passenger services.

During the reporting period, the Group continued to grow its one card access business and won the bid for the Beijing Government One Card Company’s big data platform phase II project. It provided professional data capacity support for key tasks including Beijing-Tianjin-Hebei public transportation integration and one-card national interconnection and interoperability. The Group explored government and smart city cooperation, provided data support for government management departments, and deployed smart applications to improve government management efficiency and optimize services. During the reporting period, the e-government’s big data business was successfully migrated onto the cloud. Both first and second phase of Huawei Cloud-based project, “Changping Government Data Cloud” have been completed and accepted, including government information system integration, cleaning and standardization for the whole district. The Group helped the government achieve “system to the cloud”, “data to the cloud” and “application to the cloud” step by step, successfully establishing the Changping District Government big data cloud platform. During the reporting period, the big data service business made significant progress in the manufacturing industry. The Beijing Futian Automotive Data Governance project was successfully launched, and the Sunny Data Group’s master data management project was successfully accepted.

During the reporting period, the big data service business achieved progress in other areas. The big data project of a large tobacco industry enterprise has set sail and has completed the implementation of the big data platform in the first phase of the project. Parts of the project data have been delivered and put in use. This project served as the first in the tobacco industry, and this will become the industry benchmark in the transformation of traditional data centers to big data centers. The Group's mature data engineering methodology has been proven to be replicable to other projects, and the Group signed the main data management consulting and data asset management overall planning services of the First Highway Survey and Design Institute of China Communications project with the China Communication Construction Company. The Group signed with Shougang Real Estate for its data governance project to provide project data standardization consulting and implementation and deployed intellectual property rights data management software. The Group signed a partnership with Dingxin Group to provide professional data services to clients in their smart business decisions in multiple business areas. During the reporting period, the Group, led by China Institute of Information and Communications Research, published the 4.0 version of the white paper on "Data Asset Management Practice".

During the reporting period, the Group established its smart manufacturing brand, "Honeycomb Interconnection", aiming to become China's leading smart manufacturing solution platform ecosystem operator. During the reporting period, the Group signed a strategic cooperation memorandum with Bosch to expand the scope of cooperation. The two parties announced that they will jointly innovate to promote the digital transformation of China's manufacturing industry through affordable services, and build a cloud ecosystem platform for manufacturing enterprises based on the needs of Chinese manufacturing enterprises. The Group will provide digital solutions and services to small and medium-sized manufacturing companies who wants to undergo digital transformation. The cooperation also referred to the establishment of an education and training system to meet the needs of Chinese manufacturing companies, providing intelligent manufacturing training and related skills certification, providing lean manufacturing, industry 4.0 and other consulting services. The Group will unite the government with industry organizations to develop standards and policies related to smart manufacturing. During the reporting period, the Group reached a strategic cooperation with Hechuan District of Chongqing City to provide affordable for all intelligent services, focusing on helping the automobile and motorcycle accessory industry to achieve transformation. Furthermore, the two sides jointly discussed the construction of the Industrial Internet Industry Institute to provide manufacturers with talents with digital capabilities. The Group signed cooperation agreement with Huawei and Suzhou Changshu Economic and Technological Development Zone, using Huawei cloud as the foundation, to build the Changshu Industrial Internet Platform. It will provide online diagnostic services, industrial training, industrial software solutions for Changshu auto parts and high-end equipment manufacturers, push manufacturers to migrate to the cloud, and help manufacturers achieve digitalization and smart transformation at an affordable cost.

- **Joint Force**

The Jointforce platform provides “more, faster, better and economic” software services for software service users. It solves the trust issues, management problems, and the long software services procurement. Up to this date, there are 430,000 engineers, 25,000 service providers, and 57,000 contracting companies on the platform, accumulating RMB5 billion worth of contract.

During the reporting period, Jointforce Platform improved its traditional business offerings to launch manpower outsourcing business zone, the “Z Plan”. The “Z Plan” is a SaaS service that solves the idle resources issue at an enterprise through its full process control and HR. Jointforce, along with China Mobile, “Xiaoi”, and other industry users to co-build an industry service ecosystem. The “Z Plan” already enrolled more than 400 IT suppliers, serving nearly 100 customers and fulfilling more than 100 requirements.

During the reporting period, Jointforce continued to grow its business and expand its market influence. The government based “Cloud Integrative” business continued to grow, and has beat the operation expectations in Nanjing and Xi’an. The platform has over 2,000 registered government units, 300 projects (with net project value over RMB100 million). The project operation has been launched in Baiyun (Guangzhou), Yubei (Chongqing), and has achieved a strategic cooperation intention with Wuhan, Chengdu, Wuxi etc.. The “Cloud-based Software Park”, gathering different software service providers, began to provide services in Xiamen, Zhuzhou, and Baiyun (Guangzhou). It launched a technology sharing platform to further increase the market conversion rate of patents. It improved the market competitiveness and profitability of the park enterprises through online learning platforms and knowledge data bases (from years of experiences). The Group will continue to build the park industry service ecosystem.

During the reporting period, Jointforce continued to optimize its product and improve its service capabilities. Jointforce improved platform certification efficiency through AI and reduced the threshold for service providers to enter the market, promoted electronic signature service on the 3.0 version of the electronic contract to improve credibility and effectively protect the legal effect of the electronic contract, optimized AI Big Data Intelligent Recommendation System 4.0 to reduce system maintenance costs, increase accuracy by 2%, and reduce service provider abandonment rate by 5%, revised the homepage of the website to enhance the user experience, upgrade the platform’s online communication tools, and support multi-channel payment, improved operational capabilities through digitalization, strengthened platform-level data management capabilities, and launched online digital operation platform V2.0, improving management efficiency by 30%.

2. Professional Service Group

- **Huawei**

During the reporting period, the Huawei business line focused on expanding capabilities and qualities of work, despite the volatility of the business. The Group continued to improve its business process management with the SD (Supplier Development) program by Huawei. The Group became the first batch of Huawei “Kunpeng Cloud” partner to build a computing power model for industry customers, integrators and independent software developers (ISVs) to enhance the service value of “Kunpeng Cloud” ecosystem. Furthermore, the Group fully utilized the wisdom gathering mechanism, reach, connect and enable the software industry bilaterally through Jointforce.

During the reporting period, the Group entered the list of Huawei Consumer Business Group’s (hereinafter referred to as CBG) IT core supplier and became the best supplier during Huawei CBG’s annual IT framework review. The Group has achieved steady development in strategic cooperation with Huawei’s “Co-sell” model in Malaysia, Myanmar, India and Hong Kong, and realized the whole process from business breakthrough to delivery, laying a solid foundation for the Group’s business layout in East Asia and South Asia. During the reporting period, the Group, as the first batch of partners with Huawei to establish a credible partnership (from technology to information), jointly promoted the certification of the General Data Protection Regulation (GDPR).

- **HSBC**

During the reporting period, the Group’s HSBC business remain steadily growth and expand its competitive edge in digital transformation delivery capabilities, thus driving new businesses and new contracts.

During the reporting period, HSBC’s business developed with a steady pace. The Digital Transformation Business Delivery Team achieved independent delivery, and the team grew rapidly, delivering close to RMB10 million worth of management service transformation projects, including HSBC’s new generation of personal mobile banking credit card customization system Apollo and HSBC personal business banking system RBB etc.. The transformation of trade strategy team increased by 50%. The Group’s participation in the HSBC Mobile APP Hong Kong project accomplished three major releases. A new version of HSBC Mobile App launched in China, the United States, Singapore and India. The updated content covers new features such as fast payments, personal wealth management, and credit cards.

During the reporting period, the Group developed and successfully launched a new generation of digital commercial banking platform, serving hundreds of thousands of commercial banking customers. A new generation of retail banking digital platform is running steadily. During the reporting period, the Group signed the first project with Hang Seng Bank's Hong Kong business unit to start cooperation with Hang Seng Bank's business unit. The Group participated in the restructuring projects of the retail business data in the Asia Pacific and Dawan District. The Group successfully completed the customized development of Hong Kong commercial bank customer's foreign exchange trading system through Design-Bid-Build (DBB) methodology. The Group implemented new services such as front-end UI interface function migration and mobile banking development for the French Commercial Bank.

- **Finance and Banking**

During the reporting period, the Group's financial and banking business improved steadily. The Group expanded its cooperation with more than 20 domestic and foreign banks, private banks, non-financial institutions, overseas financial institutions etc.. At the same time, the Group continues to promote technological innovation to customers with technology empowerment, model innovation and business upgrades.

During the reporting period, the Group provided digital transformation solutions and professional services to a large number of state-owned banks and national joint-stock banks. In the fields of credit financing, the Group implemented payment and settlement, credit card, and risk management, artificial intelligence, financial cloud services, and big data applications. In the large financial groups and non-bank financial institutions market, the Group cooperated with a number of industry companies such as financial real estate, biomedicine, home appliance manufacturing, and securities services. The Group will provide these customers services around Huawei cloud platform, cloud architecture design and development, application cloud migration etc.. During the reporting period, the Group maintained long-term cooperation with dozens of foreign bank customers in Europe, America, Japan, South Korea, Southeast Asia and Australia. In the network, TIPS, electricity and bill pool projects, supply chain, cross-border payment, credit reporting, supervision and regulatory risk control areas, new projects have been carried out. In terms of overseas customer development, the Group has completed project for the world's leading banks, implemented projects in Singapore, Thailand, Indonesia and other places, and expanded its services to Vietnam, Malaysia and other regions.

During the reporting period, the Group continued to invest in R&D on hot spot of the market and actively engaged in business innovation and product upgrades. The Group enhanced business value for customers on the third phase of the ticket exchange, ticket payment, discount and other products. In the collection robot field, the Group has accomplished "intelligent customer service to the cloud". The Group use scene speech training of big data, leverage speech recognition, semantic understanding and speech synthesis, and achieve intelligent call, automatic response, scene dialogue and other functions.

The Group maintained its leading position in the supply chain finance integrated solutions business. Its commercial factoring products will further engage in cloud service and customization. Furthermore, the Group's financial card-based products continued to innovate around the market, and realized upgrades in facial applications, payment platforms, QR code industry applications, tokenization and payment receiving platforms.

- **Insurance and Securities Industry**

During the reporting period, the Group's insurance business grew rapidly, developed several high quality insurance asset customers, optimized its solutions and achieved good results. During the reporting period, the Group successfully won dozens of major projects including Sunshine Property Insurance, China Reinsurance Company, Pacific Insurance, and AIA Insurance. Furthermore, the Group successfully implemented the real-time indicators project of online insurance and telemarketing for Sunshine Property Insurance, and the big data security project for Pacific Insurance. The Group actively built an integrated platform for implementation, operation and maintenance, and comprehensively planned the data strategy for the middle layer platform. The Group continued to expand ODC outsourcing business cooperations with AIA Insurance Asia Pacific, AIA Insurance China and other customers. Lastly, the Group actively participated in the construction of the second batch of "Specification of Insurance Services Factor Data" created by the China Banking and Insurance Regulatory Commission.

During the reporting period, the Group's securities business grew steadily and maintained industry leading position in core organization data services and core systems. The Group then leveraged traditional strengths to capital market supervision, monitoring and service organizations. During the reporting period, the Group successfully won the bid for China Securities Depository and Clearing Co., Ltd., including the national share transfer data infrastructure project, and several manpower outsourcing framework service projects. The Group successfully implemented the national stock transfer data infrastructure v1.2, Shanghai Futures Exchange big data monitoring phase I and other projects. In terms of human resources, the Group discovered new business talents in the science & technology and investment & financing fields. In the business and information consulting field, the Group deeply participated in the underwriting of the standard application and promotion of the securities and futures industry.

- **Telecommunication, Internet and Mobile Terminal**

During the reporting period, the Group's Tencent business expanded rapidly and the team members continued to grow. The Group won bids for Tencent's WeChat test package, WeChat fun content review and labelling, Youku Cantonese review and many other projects. During the reporting period, the Group's interactive customer service team won the title of the "Best Quality Supplier" of Tencent Interactive Entertainment Group (IEG) and expanded the IEG overseas customer service. The Southeast Asian country projects are currently being delivered. The Lexin business unit won the title of "Customer's Best Partner", and cooperated with Cool Dog Music to become one of the four major suppliers of KuGoo Music.

During the reporting period, the Group's Alibaba business progressed steadily. Currently, the overall staff on this business has exceeded 2,100. The business covers e-commerce, consumer services, wholesale, digital and entertainment, innovative business, Cainiao, Ants Financial and Alibaba Cloud, with nationwide delivery capabilities. The S2 BPO business won the first place as a supplier. During the reporting period, after winning the bid for the TmallGenie project last year, the Group's Alibaba Communications, IoT and other projects were also selected as the pilot for the Ali Independent Delivery Unit. The Group's Ali Mama business developed from single model to a dual model of auditing and labelling. During the reporting period, the Group achieve the first place in the performance evaluation among 15 suppliers of amap for three consecutive quarters. Lastly, the Group's cooperation with the first phase of amap's school was very successful, and has started the second phase.

During the reporting period, the Group's Baidu business continued to grow. Leveraging its existing business, the Group expanded its business with Baidu's affiliated companies including iQiyi, Baidu Crowd-Testing, Duxiaoman AI voice annotation, and started joint development with Baidu's Intelligent Driving Group. During the reporting period, the Group and Baidu's core business "search" was further strengthened. There are currently close to 100 people working for this team. The business covers multiple core departments such as APP Business Department, Vertical B2B Business Department, Vertical Industry Development Department, and Search Product Department.

During the reporting period, the Group expanded its telecom mobile terminal business scale. The Group successfully won the bid for important projects including China Mobile and China Mobile Research Institute. The Group and China Mobile's cooperation continued to grow, with now close to 1,000 people on the team. During the National Cyber Security Special Action period, the team made a significant contribution to the security maintenance of Anhui Telecom Bestpay Platform and was recognized by Anhui Telecom. The partnerships with customers such as Fiberhome Communications, Datang Telecom and Guangzhou Samsung Communications developed steadily.

- **High-tech Business**

During the reporting period, the Group's business with Microsoft continued to expand domestically and globally. In the US, the Group maintained deep cooperation with Microsoft in core AI voice technology as well as Bing, Sharepoint and other core products, started many new projects, developed the "front shop, back factory" delivering model, continued to improve delivering quality and efficiency of onshore and offshore business, provided reliable software development and testing outsourcing service for Microsoft. In China, the Group kept up with Microsoft's strategy direction as a strategic cooperating partner of Microsoft Azure cloud and Dynamics CRM, carried out extensive marketing cooperation with Microsoft, provided high quality consulting and implementation service. During the reporting period, the Group developed customers in Southeast Asia together with Microsoft and gained Microsoft's Power-Apps silver partner certification.

During the reporting period, The Group's GE business developed steadily. The Group accomplished the MVP3 (Minimum Viable Product) staged delivery of the IoT project in GE THINKING WORK platform and expanded the medical equipment support and maintenance business to more than 20 provinces and cities in China. Furthermore, the Group accelerated in developing other GE business, made break through in aviation and petroleum business and became its important IT service supplier.

During the reporting period, the Group's business with Ping An grew rapidly, deepened business layout in the Fin-Tech and related ecosystem, and intensified transformation efforts in cloud computing, big data and AI related areas. In the aspect of Ping An group, the Group won the bid of data platform project. In the aspect of Ping An banking business, the Group helped the strategic landing of Ping An retail banking's Openbank and Albank projects, successfully implemented smart mobile banking, smart anti-fraud, pocket banking AI manager and other key projects. In the aspect of smart city, the Group won the bid of smart education "Zhiniaozhi" portal and smart searching projects. Lastly, the Group won the bid of Ping An's micro-lease project for four consecutive times.

During the reporting period, the Group expanded its BPO business in Japan rapidly, and developed 13 new customers. Aside from traditional businesses like finance, securities and circulation, the Group also developed new businesses in industries including telecom, education, public infrastructure and etc. Currently, the business is mainly distributed in Tokyo and Osaka. With the development of ECOMIC, ZIP and NTTact business, the Group plans to explore local business in Hokkaido, Okayama, Fukuoka and Kumamoto.

During the reporting period, the Group's real estate ODC business developed rapidly. Its Xi'an ODC team is off and running. Mingyuan real estate ODC business developed smoothly, the team grew steadily, and productivity increased by 30%. The Group also won the bid of projects for Longhu Real estate, Galaxy Group, Times real estate, Nimble Real Estate, Gaoxing Group, Gosun Group, Chengdu Highway Design Institute, PWC etc..

During the reporting period, the Group carried out the cooperation with PowerChina and Huadong Engineering Institution. The phase one result of the power grid digitalization project management platform constructed by the two parties was recognized by the customer. Furthermore, the two parties achieved cooperation in developing smart forest SaaS product based on the Xiongan new district smart forest platform. The two parties achieved cooperation in smart water management area, jointly participated in the development of Huadong Engineering Institution's government clients' drainage pipe network and environmental integrated management product line.

During the reporting period, the Group's manufacturing informatization business developed steadily. The scale of Sangfor's service team has exceeded 100 people, and the scale of Comtop service team is now nearly 200 people. The Group successfully won Sangfor's 2019-2021 annual bid, Comtop's 2019 outsourcing bid, Gree's outsourcing project in Zhuhai and etc.

During the reporting period, the Group's SF Express business progressed steadily, was ranked No.1 in outsourcing in Shenzhen area, and kept its status as the exclusive supplier for the Beijing and Shenzhen companies of SF Express.

- **Government Business**

During the reporting period, the Group's government business achieved breakthroughs and improved steadily. The Group kept its leading position in auditing informatization business, made several breakthroughs in enterprise internal auditing business, and successfully delivered the first project for "Guizhou-Cloud Big Data Co. Ltd.".

During the reporting period, the audit business grew at a faster rate, and the audit projects in various regions progressed smoothly. During the reporting period, the government audit information project advanced steadily, and has been delivered in Jiangxi, Zhongshan. The Qinghai project is developing smoothly, the cooperation with various districts in Beijing has deepened, and the comprehensive enterprise project in cooperation with the Shaanxi Provincial Audit Office has been developed. Furthermore, the Group participated in the audit information design and service work in Jiangsu, Zhejiang and other places. In terms of financial customers, the Group successfully signed the second phase of the China Post Storage Bank for the audit management system project. The Group communicated and initiated PoC with many banks. During the reporting period, the Group's successful internal audit projects helped customers expand their channels. The Group will customize the upgraded version of "ChinaSoft Audit Analysis Platform" and deploy it in the construction projects of customers such as BOE, China Postal Savings Bank, Huaxia Bank, Xicheng District Audit Bureau and Qinghai Audit Office.

During the reporting period, the Group was deeply involved in the field of agricultural informationization and achieved breakthroughs in multiple projects. The Group successfully won the bid for the fourth phase of the Environmental Impact Assessment Management System of the Yunnan Provincial Department of Ecological Environmental Protection and completed the pilot project of EIA and Emission Permit for the first time in the country. The preliminary inspection of the national animal husbandry comprehensive information platform project is about to enter the trial operation stage. It has completed the initial integration and sharing of 14 ministerial-level livestock industry information systems. During the reporting period, the Group cooperated with “Cloud Guizhou” to steadily promote the big data platform within the province. It provided big data support for the adjustment of agricultural industrial structure in Guizhou Province, and completed the delivery of agricultural big data platform for over 500 mu dam area in Guizhou Province.

During the reporting period, the Group continued to expand its business in the cultural media industry. During the reporting period, the Group won the bid for the English version of the Xinhua News Agency client app project, including media production and content management. The Economic Daily APP Matrix Visualization Product Library System project entered into the operational phase and provided a new model of product services to organizations, allowing individual users to conduct online transactions.

During the reporting period, the “Internet + Customs” integrated platform project was progressed ahead, and the development of cloud computing and big data based system has been completed. Every module of the platform was launched steadily online.

- **Manufacturing Circulation**

During the reporting period, the manufacturing business grew steadily. The Smart Manufacturing Execution System (T-S.MES) platform developed by the Group maintained a 75% market share advantage in the tobacco industry, deployed in 13 cigarette factories and 3 Chinese tobacco companies and highly recognized by the customers. Furthermore, the Group cooperated with Huawei, Alibaba, Tencent and Xinghuan in technology trending industries such as big data and cloud computing. During the reporting period, the Group won the bid for “China Tobacco Sichuan Industrial Smart Factory Supply Chain Cloud Management Platform” project. This project is the first full-supply chain batch management project based on cloud platform and micro-service architecture, taking a new step towards smart manufacturing. During the reporting period, the Group successfully won the bid several procurement management system projects of tobacco industry and commercial companies. During the reporting period, the under construction MES projects, equipment projects, batch projects and ERP projects were progressed steadily. The Group cooperated with Xinghuan Technology, successfully landed the Guangdong China Tobacco Order Big Data Platform Project and expanded the integration scope of Big Data Platform products. The Group successfully implemented the pilot

project of cigarette demand forecasting of a provincial tobacco monopoly bureau, using big data technology to predict sales market demand and realize product transformation. The Group completed the research and development of the Zhejiang Monopoly Management Platform System, and the platform applications launched gradually. Lastly, the MES of Hongta Tobacco (Group) was fully put into use at Zhongyan Cigarette Factory, Chuxiong Cigarette Factory, Zhaotong Cigarette Factory and Yuxi Cigarette Factory. And the MES of Bengbu Cigarette Factory was successfully put into operation as well.

During the reporting period, the new retail business development steadily with innovations and breakthroughs. The Group completed the pilot projects for Guangdong, Shaanxi and Fujian projects, and actively explored new markets in Hunan and Anhui. During the reporting period, the Group and Huawei reached strategic cooperation in the new retail field to jointly develop the market of wine, clothing, food, electronics and other industries, designing new retail solutions for general circulation areas and new retail business platform. Furthermore, the Group deepened Huawei cooperation in AI technology fields such as face recognition, image recognition, model training etc., providing comprehensive new retail solutions for fast-distributing goods circulation enterprises. During the reporting period, the accomplished delivery of new retail projects in Guangdong and Shaanxi were highly recognized by customers.

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

During the reporting period, the Group's transportation business progressed steadily, consolidating the dominant position in the field of civil aviation big data, and realized the optimization and upgrading of power products for overseas market.

During the reporting period, the Group successfully won the bid for the automatic ticketing system integration project of R2 line in Jinan City. The railway transportation projects such as Jinan Subway, Lanzhou Subway and Nanchang Subway, which were built by the Group, were put into use and successfully supported the operation test of each line.

During the reporting period, major project progress was made in civil aviation informatization. The Daxing Airport Intelligent Data Center Project undertaken by the Group was successfully accepted. Wuhan Tianhe International Airport, Capital Airport, Guangxi Airport, and Shanghai Airport projects progressed steadily. During the reporting period, the Group completed the national promotion training of the national administrative law enforcement project undertaken by the Civil Aviation Administration of China and assisted in electronic safety supervision.

During the reporting period, the Group successfully completed the delivery of the power AMI project in the capital of a Southeast Asian country. In product development, the Group completed the deployment test of the power marketing solution on the public cloud, and jointly debugged issues with some well-known meter manufacturers. Power products were added with support functions based on GIS, and customers can intuitively understand the operation of the grid through maps.

- **Catapult**

Catapult business grew steadily during the reporting period. The growth in revenue comes from Enterprise customers, as well as large cities as part of a Smart City alignment with Microsoft. Catapult provides technical analytics insights through artificial intelligence and machine learning, covering policing, public transportation and energy management services.

During the reporting period, Catapult spared considerable efforts on developing a cloud voice services strategy, supported by expert flex services, to provide integration and ongoing end-to-end support of Microsoft voice technologies. Catapult replaced the user's switch (PBX) system with Microsoft Teams and Skype for Business to help customers modernize their business communications, improve employee productivity, and reduce meeting travel expenses. During the reporting period, Catapult's customer satisfaction NPS reached an all-time high score of 76.

During the reporting period, Catapult strengthened its cooperation with Microsoft and won four awards from Microsoft including "Microsoft's Partner of the Year for Power-Apps", "Microsoft's US Partner Award for Modern Workplace, Security & Companies", "Microsoft's Partner of the Year for Modern Desktop" and "Microsoft's Partner of the Year for Power BI". Catapult also won the "Eagle Plaque Award" success with new customers in Microsoft Dynamics. During the reporting period, Catapult passed their ISO/IEC 27001 re-certification for information security management systems (ISMS). In addition, it strengthened cooperation with the Group's Indian team and expanded offshore resources.

- **Training (ETC) Business**

During the reporting period, the training business developed steadily. Up to this date, the Group has established talent training and practical training cooperation with 712 colleges and universities, and signed "School-Enterprise Cooperation" agreement with 305 colleges and universities to ensure continuously deliver talents to the Group and IT industry. During the reporting period, the Group gathered IT technical service projects and enriched the actual training library through the Chinasoft International Smart Education Cloud Platform, Chinasoft International Big Data Lab, Chinasoft International Artificial Intelligence Laboratory, and Engineering Certification Support Platform. The industry training base projects, cooperated with multiple local government, have been smoothly progressed.

KEY OPERATING DATA

During the first half of 2019, the Group's businesses achieved steady growths. The Group's revenue, service revenue, profit for the period, and profit attributable to the owners of the Company increased by 15.0%, 15.2%, 0.9%, and 1.1% YoY. The Group's EPS decreased by 1.5% YoY.

	Six Months Ended 30 June		% Change
	2019 RMB'000	2018 RMB'000	
Revenue	5,538,248	4,813,853	15.0%
Service revenue	5,493,458	4,770,267	15.2%
Profit for the period	358,967	355,805	0.9%
Profit attributable to owners of the Company	362,695	358,759	1.1%
Basic EPS (RMB cents)	14.64	14.87	(1.5%)

The key operating data (unaudited) for the six months ended 30 June 2019 are as follow:

	Six Months Ended 30 June		% Change
	2019 RMB'000	2018 RMB'000	
Revenue	5,538,248	4,813,853	15.0%
Service revenue	5,493,458	4,770,267	15.2%
Cost of Sales and services	(3,971,495)	(3,423,801)	16.0%
Gross Profit	1,566,753	1,390,052	12.7%
Other income	60,498	18,945	219.3%
Other gains or losses	(163)	3,737	(104.4%)
Selling and distribution costs	(265,745)	(233,003)	14.1%
Other expenses	(30,150)	(36,641)	(17.7%)
Administrative expenses	(832,932)	(679,967)	22.5%
Finance Costs	(85,411)	(54,573)	56.5%
Impairment losses, net of reversal	(12,326)	(145)	8400.7%
Share of results of investments accounted for using the equity method	(7,845)	(15,265)	(48.6%)
Loss from derecognition of financial assets measured at amortised cost	(2,497)	(4,717)	(47.1%)
Profit before taxation	390,182	388,423	0.5%
Income tax expense	(31,215)	(32,618)	(4.3%)
Profit for the period	358,967	355,805	0.9%

GENERAL OVERVIEW

The year 2019 is a year full of battles. In the face of the slowdown in domestic economic growth and the back and forth trade war between China and the United States, the Group united its efforts and determined a blueprint to achieve continued growth for the interim results. The Group's legacy business increased despite market conditions and the cloud intelligent transformation officially set sail. The Group was selected as one of the top 100 global IT service providers by Gartner for the first time, demonstrating the value and responsibility of a leading Chinese IT company.

During the reporting period, the Group became one of Huawei Consumer Business Group's core IT suppliers, achieved strategic development through Huawei's "Co-sell" model, and achieved standardization of full process from signing business to delivery. HSBC's business continued to grow and expanded its competitive advantages in digital transformation business delivery capabilities. This led to new businesses and contracts. Tencent's business grew rapidly, winning many projects including WeChat test package, WeChat fun content review, and Youku Cantonese review. The Group and Ali business developed from a single model to a dual mode of auditing and labeling, and the S2 BPO business won the first place of all suppliers. The Group expanded its businesses with Baidu and its associated company, including projects with iQiyi, Baidu crowdsourcing, Du Xiaoman AI voice annotation, and etc., and started business with the Baidu IDG automatic driving department. The Group's business with Microsoft has not been affected by the Sino-US trade war, and the overall growth has been steady. The Group was certified as one of Microsoft PowerApps' Silver Partner.

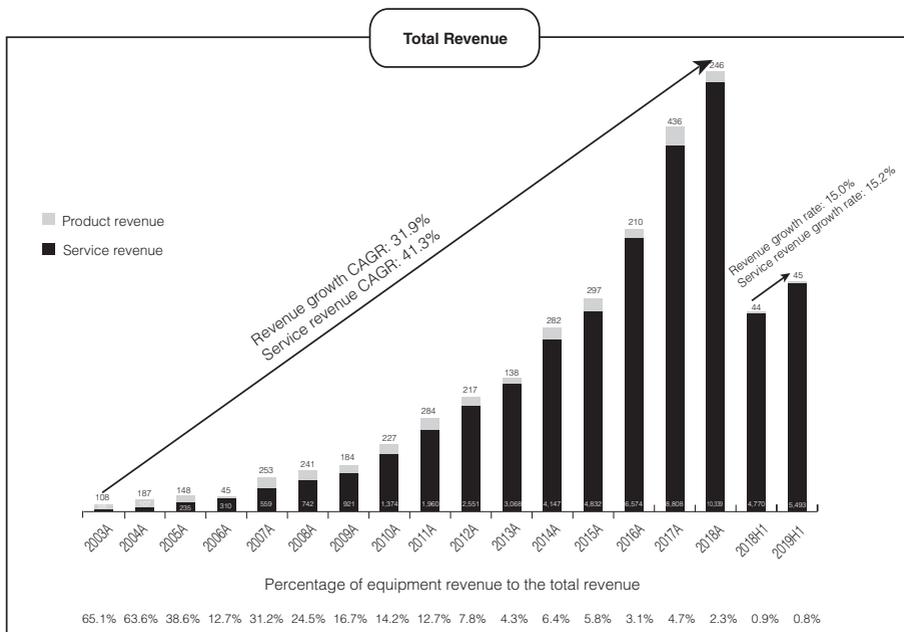
During the reporting period, the Group leveraged its years of experience to bring its customers onto the cloud and its variety of cloud products to bring stable and sustainable revenue to the Group. The Group's intelligent customer service, Honeycomb diagnosis, data management, smart credit and other industry solutions were incorporated into Huawei's "select marketing". Furthermore, the Group completed the planning and design of the park solution, and successfully built a "smart store" solution. Its "Video and Audio Cloud" and "Software Education Cloud", based on the audio and video solution products independently developed by Tencent Cloud, obtained independent intellectual property rights. Catapult's solution for simplifying IT security and compliance processes, Spyglass, is recognized by the market. The Jointforce Platform improved its traditional business offerings to launch its manpower outsourcing business, the "Z Plan". The "Z Plan" already recruited more than 400 IT suppliers, serving nearly 100 customers and completing more than 100 tasks. The Group continued to develop and expand its "Cloud Integrative Market" business. The operation results in Nanjing and Xi'An exceeded expectations. The platform has registered more than 2,000 government unit and 300 projects. The project amount exceeded RMB100 million. Guangzhou Baiyun and Chongqing Yubei have also started operations. The Group has reached strategic cooperation with Chengdu, Changsha and Guizhou to launch the "Cloud Integrative Market" service.

During the reporting period, the Group built a corporate cloud service system, improved cloud professional service capabilities, and continuously improved the cloud business layout. The Group used Design Thinking (DT) methodology as the traction, leveraged the digital transformation professional consultation, deeply explored the pain points of customer business, and successfully built an end-to-end service system from cloud consulting, cloud migration, cloud implementation, cloud development to cloud management. The Group developed industry solutions based on industry characteristics. The Group's big data business has grown rapidly, gradually expanding its industry layout, and has been stable in the finance, airport, one-card access, government administrations, and other industries. The Group continued to maintain its competitive advantages in the high-tech and automobile industries, and continued to explore new customers and new businesses in the tobacco, real estate, food and other industries. The Group established its intelligent manufacturing business brand - "The Honeycomb", and is committed in becoming China's leading intelligent manufacturer and intelligent manufacturing solutions platform operator.

Looking forward into the future, the Group will cooperate with Huawei and other strategic customers through "Zero Distance Innovation", continue to improve service capabilities and customer satisfaction, use the Jointforce concept to transform the core businesses, and use AI and big data to focus on cloud intelligence businesses and realize the Group's smart cloud transformation strategy. The Group will continue to demonstrate its fighting spirit and move toward the goal of a world-class IT leader.

24 MANAGEMENT DISCUSSION AND ANALYSIS

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 31.9% and 41.3% respectively from 2003-2018. For the first half of 2019, the revenue and service revenue achieved a YoY growths of 15.0% and 15.2%. The details are as follow:



Customers

The Group's customers include large enterprises with headquarters in the Greater China region, Europe, America, and Japan. In the Chinese market, the Group holds a large market share in telecommunication, banking, financial, high technology, and other mainstream industries. In the first half of 2019, the Group's top five and top ten customers accounted for 72.3% and 77.0% of the Group's service revenue.

As at 30 June 2019, the Group has 113 large customers (contributed to more than RMB 6 million of service revenue within the past 12 months.)

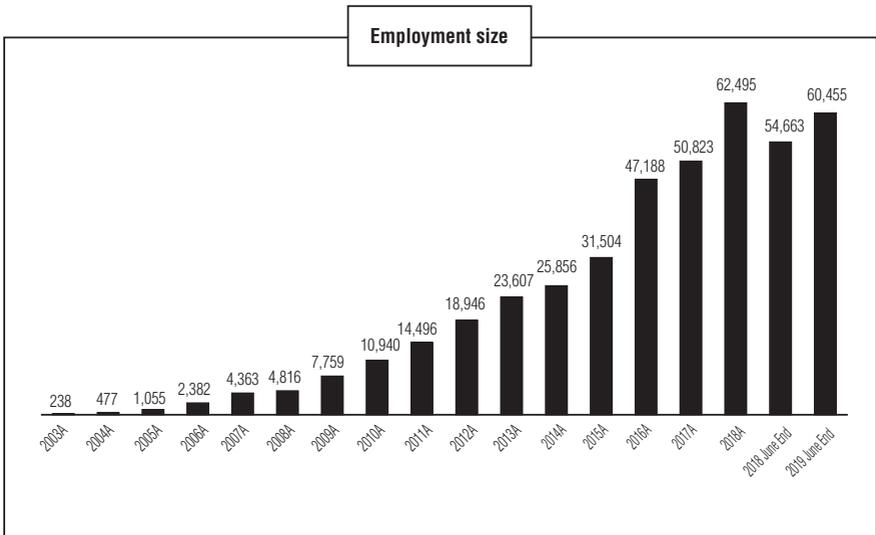
Market

During the reporting period, the Group’s main businesses were concentrated in the Greater China region. The huge market potential in the Greater China region continues to bring growth opportunities for the Group. The Group provides ITS to customers from 32 countries and number of Top 500 companies in the world, accumulating experiences in servicing international customers. Going with the “Belt and Road” initiative, the Group will combine and increase its cooperation with Huawei’s products and industries to speed up its global layout. The Group will improve its existing centers in America, Japan, India, Malaysia, Singapore, Mexico, etc. The Group will utilize cloud driven digitalization services to promote global servicing layout, become a world class ITS enterprise, and build up China’s influence in the global IT market.

Human Resources

As at 30 June 2019, the Group employs a total of 60,455 employees, representing an increase of 10.6% YoY (2018H1: 54,663).

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



Operating Results

The following is the Group's consolidated comprehensive income statement for the first half of 2018 and 2019 (unaudited):

	2019			2018		
	For the first half RMB'000	% of Revenue	% of Service Revenue	For the first half RMB'000	% of Revenue	% of Service Revenue
Revenue	5,538,248	N/A	N/A	4,813,853	N/A	N/A
Service revenue	5,493,458	99.2%	N/A	4,770,267	99.1%	N/A
Cost of sales and services	<u>(3,971,495)</u>	<u>(71.7%)</u>	<u>(72.3%)</u>	<u>(3,423,801)</u>	<u>(71.1%)</u>	<u>(71.8%)</u>
Gross Profit	1,566,753	28.3%	28.5%	1,390,052	28.9%	29.1%
Other income	60,498	1.1%	1.1%	18,945	0.4%	0.4%
Other gains or losses	(163)	0.0%	0.0%	3,737	0.1%	0.1%
Selling and distribution costs	(265,745)	(4.8%)	(4.8%)	(233,003)	(4.8%)	(4.9%)
Other expenses	(30,150)	(0.5%)	(0.5%)	(36,641)	(0.8%)	(0.8%)
Administrative expenses	(832,932)	(15.0%)	(15.2%)	(679,967)	(14.1%)	(14.3%)
Finance costs	(85,411)	(1.5%)	(1.6%)	(54,573)	(1.1%)	(1.1%)
Impairment losses, net of reversal	(12,326)	(0.2%)	(0.2%)	(145)	0.0%	0.0%
Share of results of investments accounted for using the equity method	(7,845)	(0.1%)	(0.1%)	(15,265)	(0.3%)	(0.3%)
Loss from derecognition of financial assets measured at amortised cost	<u>(2,497)</u>	0.0%	0.0%	<u>(4,717)</u>	(0.1%)	(0.1%)
Profit before taxation	390,182	7.0%	7.1%	388,423	8.1%	8.1%
Income tax expense	<u>(31,215)</u>	<u>(0.6%)</u>	<u>(0.6%)</u>	<u>(32,618)</u>	<u>(0.7%)</u>	<u>(0.7%)</u>
Profit for the period	<u>358,967</u>	6.5%	6.5%	<u>355,805</u>	7.4%	7.5%
Profit attributable to owners of the Company	<u>362,695</u>	6.5%	6.6%	<u>358,759</u>	7.5%	7.5%

Revenue

For the first half of 2019, the Group's revenue was RMB5,538.248 million, representing a YoY growth of 15.0% (2018H1: RMB4,813.853 million). The Group's service revenue was RMB5,493.458 million, representing a YoY growth of 15.2% (2018H1: RMB4,770.267 million). The growth came mainly from the steady growth of core large customers, and the high growths of cloud intelligence businesses including cloud and big data.

For the first half of 2019, the segment's revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2019 RMB'000	% of Total	Six Months Ended 30 June 2018 RMB'000	% of Total	Growth Rate
Technical and Professional Services Group (TPG)	4,748,340	85.7%	4,029,252	83.7%	17.8%
Internet IT Services Group (IIG)	789,908	14.3%	784,601	16.3%	0.7%
Total	5,538,248	100%	4,813,853	100%	15.0%

For the first half of 2019, the segment's service revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2019 RMB'000	% of Total	Six Months Ended 30 June 2018 RMB'000	% of Total	Growth Rate
Technical and professional Services Group (TPG)	4,731,848	86.1%	4,011,444	84.1%	18.0%
Internet IT Services Group (IIG)	761,610	13.9%	758,823	15.9%	0.4%
Total	5,493,458	100%	4,770,267	100%	15.2%

Cost of Sales and Services

For the first half of 2019, the Group's cost of sales and services was RMB3,971.495 million, representing a YoY increase of 16.0% (2018H1: RMB3,423.801 million). The Group's cost of sales and services was 71.7% of the Group's total revenue, representing a YoY increase of 0.6% (2018H1: 71.1%).

Gross Profit

For the first half of 2019, the Group's gross profit was RMB1,566.753 million, representing a YoY growth of 12.7% (2018H1: RMB1,390.052 million). The Group's gross margin was 28.3%, representing a YoY decrease of 0.6% (2018H1: 28.9%). The Group's gross margin (to total service revenue) was 28.5%, representing a YoY decrease of 0.6% (2018H1: 29.1%). The reason for the decline in gross profit margin was due to the slight decline of gross profit margin from the Huawei business due to the increase in labour cost.

Other Income

For the first half of 2019, the Group's other income was RMB60.498 million, representing a YoY increase of 219.3% (2018H1: RMB18.945 million). The reason for the increase is due to the increase in the Input VAT deductions during the reporting period and the increase in government subsidies over the same period last year.

Other Gains or Losses

For the first half of 2019, the Group's other losses were RMB0.163 million, representing a YoY decrease of 104.4% (2018H1: other income RMB3.737 million). The main reason of this increase is because of the fluctuations in the exchange rate of the US dollar, Japanese yen, and Hong Kong dollar against the RMB during the reporting period.

Operating Expenses

For the first half of 2019, the Group's selling and distribution expenses were RMB265.745 million, representing a YoY increase of 14.1% (2018H1: RMB233.003 million). The Group's selling and distribution expenses accounted for 4.8% of the revenue, the same ratio as the same period last year.

For the first half of 2019, the Group's administrative expense was RMB832.932 million, representing a YoY increase of 22.5% (2018H1: RMB679.967 million). The Group's administrative expense accounted for 15.0% of the revenue, representing a YoY increase of 0.9% (2018H1: 14.1%). The increase of the Group's administrative expense is because during the reporting period the Group increased its R&D in cloud intelligence business, resulting in the increase of R&D costs.

Finance Costs and Income Tax

For the first half of 2019, the Group's finance costs were RMB85.411 million, representing a YoY increase of 56.5% (2018H1: RMB54.573 million). The Group's finance costs accounted for 1.5% of the revenue, representing a YoY increase of 0.4% (2018H1: 1.1%). The main reason for this increase is because during the reporting period 1) the Group adjusted its fund management strategy, starting to pay more attention to operating security and increased bank loans which led to an increase in interest expenses and 2) the new lease standard implemented on 1 January, 2019 which led to the increase of interest on the lease liability.

For the first half 2019, the loss from derecognition of financial assets measured at amortised cost was RMB2.497million (2018H1: RMB4.717 million), representing a YoY decrease of 47.1%.

For the first half of 2019, the Group's income tax was RMB31.215 million, representing a YoY decrease of 4.3% (2018H1: RMB32.618 million).

Other Non-Cash Expenses

For the first half of 2019, the Group' other expenses was RMB30.150 million, representing a YoY decrease of 17.7% (2018H1: RMB36.641 million). The Group's other expenses accounted for 0.5% of the revenue, representing a YoY decrease of 0.3% (2018H1: 0.8%).

For the first half of 2019, the Group's impairment losses, net of reversal were RMB12.326 million (2018H1: RMB0.145 million), representing a YoY increase of 8400.7%. This is mainly due to the provision of bad debts according to the Group's accounts receivable and contract assets, resulting in a large difference from that of the same period of last year.

Profit for the Period and Earnings Per Share (EPS)

For the first half of 2019, the Group's profit was RMB358.967 million, representing a YoY growth of 0.9% (2018H1: RMB355.805 million). The Group's profit accounted for 6.5% of the revenue, representing a YoY decrease of 0.9% (2018H1: 7.4%). The Group's profit accounted for 6.5% of the service revenue, representing a YoY decrease of 1.0% (2018H1: 7.5%).

For the first half of 2019, the Group's profit attributable to the owners of the Company was RMB362.695 million, representing a YoY growth of 1.1% (2018H1: RMB358.759 million).

Based on the profit attributable to the owners of the Company, the Group's EPS was RMB14.64 cents for the first half of 2019, representing a YoY decrease of 1.5% (2018H1: RMB14.87 cents).

Segment Revenue and Results

For the first half of 2019, the segment's growth of revenue, service revenue and results are as follow:

	Revenue			Service Revenue			Results		
	Six Months Ended 30 June 2019 RMB'000	Six Months Ended 30 June 2018 RMB'000	Growth Rate	Six Months Ended 30 June 2019 RMB'000	Six Months Ended 30 June 2018 RMB'000	Growth Rate	Six Months Ended 30 June 2019 RMB'000	Six Months Ended 30 June 2018 RMB'000	Growth Rate
Technology Professional Services Group (TPG)	4,748,340	4,029,252	17.8%	4,731,848	4,011,444	18.0%	407,891	424,265	(3.9%)
Internet IT Services Group (IIG)	789,908	784,601	0.7%	761,610	758,823	0.4%	84,747	84,574	0.2%
Total	5,538,248	4,813,853	15.0%	5,493,458	4,770,267	15.2%	492,638	508,839	(3.2%)

In terms of segment revenue, TPG's revenue and service revenue achieved a YoY growth of 17.8% and 18.0%. The main growth came from the increase of revenue from core large customers including Huawei, Tencent, Alibaba, Ping-An, and etc.. IIG's revenue and service revenue achieved a YoY growth of 0.7% and 0.4%. This slowdown is because 1) the Group adjusted its business to focus on Government IT construction through "Cloud Integrative Service", 2) the layout of the Cloud Software Park is basically completed, causing a decline in revenue and 3) the Group moved its smart manufacturing business to an associated company, so the financial statements are no longer consolidated.

In terms of segment results, TPG's result decreased by 3.9% YoY. This decrease is due to the decrease of gross profit margins from the Huawei business. IIG's result achieved a YoY growth of 0.2%, maintaining the same level as that of last year.

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

Fundraising Activities

During the current and last interim period, no fund raising activities had been conducted by the Group.

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 2019 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	For the six months ended 30 June	
		2019 RMB'000	2018 RMB'000
Revenue	3	5,538,248	4,813,853
Cost of sales and services		(3,971,495)	(3,423,801)
Gross profit		1,566,753	1,390,052
Other income		60,498	18,945
Other gains or losses		(163)	3,737
Selling and distribution costs		(265,745)	(233,003)
Other expenses		(30,150)	(36,641)
Administrative expenses		(832,932)	(679,967)
Finance costs	4	(85,411)	(54,573)
Impairment losses, net of reversal		(12,326)	(145)
Share of result of investments accounted for using the equity method		(7,845)	(15,265)
Loss from derecognition of financial assets measured at amortised cost		(2,497)	(4,717)
Profit before taxation		390,182	388,423
Income tax expense	5	(31,215)	(32,618)
Profit for the period		358,967	355,805
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		(7,226)	(1,867)
Total comprehensive income for the period		351,741	353,938
Profit for the period attributable to:			
Owners of the Company		362,695	358,759
Non-controlling interests		(3,728)	(2,954)
		358,967	355,805
Total comprehensive income attributable to:			
Owners of the Company		355,469	356,892
Non-controlling interests		(3,728)	(2,954)
		351,741	353,938
Earnings per share	7		
– Basic (cents)		14.64	14.87
– Diluted (cents)		14.31	14.00

32 CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		855,439	837,634
Intangible assets		136,529	148,172
Goodwill		1,006,337	1,006,337
Investments accounted for using the equity method		178,435	144,280
Right-of-use assets		279,552	–
Equity instrument at fair value through other comprehensive income		59,754	51,508
Prepaid lease payments		–	37,003
Deferred tax assets		7,893	8,675
Other receivable		48,030	29,935
		2,571,969	2,263,544
Current assets			
Inventories		132,848	63,698
Trade and other receivables	8	3,366,398	2,585,247
Bills receivable		37,654	22,212
Prepaid lease payments		–	860
Contract assets		2,575,798	2,819,117
Amount due from related companies		82,698	67,765
Pledged deposits		204,640	19,426
Bank balances and cash		2,324,029	2,646,375
		8,724,065	8,224,700
Current liabilities			
Trade and other payables	9	984,079	1,497,011
Bills payable		16,116	45,280
Contract liabilities		144,430	166,078
Amounts due to related companies		18,839	18,185
Dividend payable to shareholders		82	81
Taxation payable		143,477	125,174
Borrowings	10	2,540,724	1,675,646
Convertible loan notes		–	198,263
Lease liabilities		4,400	–
		3,852,147	3,725,718
Net current assets		4,871,918	4,498,982
Total assets less current liabilities		7,443,887	6,762,526

		(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Non-current liabilities			
Deferred tax liabilities		10,268	11,062
Lease liabilities		243,879	–
Convertible loan notes		729,517	719,941
		<u>983,664</u>	<u>731,003</u>
		<u>6,460,223</u>	<u>6,031,523</u>
Capital and reserves			
Share capital	11	116,483	112,994
Share premium		3,149,347	2,982,319
Treasury shares		(154,267)	(76,451)
Reserves		3,287,855	2,948,128
Equity attributable to equity holders of the Company		<u>6,399,418</u>	<u>5,966,990</u>
Non-controlling interests		60,805	64,533
Total equity		<u>6,460,223</u>	<u>6,031,523</u>

34 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to the owners of the Company														
	Share capital	Share premium	Treasury shares	Other reserves	Fair value through other comprehensive income	Equity-settled share-based payment	Convertible loan notes reserve	General reserve	Statutory enterprise expansion fund	Statutory surplus reserve	Accumulated profits	Total	Non-controlling interests	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2018	110,283	2,888,329	-	(122,789)	-	(31,474)	216,130	124,174	15,793	26,749	147,455	1,837,829	5,133,299	64,165	5,197,464
Profit for the period	-	-	-	-	-	-	-	-	-	-	358,759	358,759	-	(2,954)	355,805
Other comprehensive (expenses) income for the period	-	-	-	-	-	(1,867)	-	-	-	-	-	-	(1,867)	-	(1,867)
Total comprehensive (expenses) income for the year period	-	-	-	-	-	(1,867)	-	-	-	-	358,759	356,892	(1,867)	(2,954)	353,938
Issue of ordinary shares upon exercise of share options	61	4,635	-	-	-	(733)	25,916	-	-	-	-	-	3,963	-	3,963
Recognition of share option expenses	1,050	-	-	-	-	-	-	-	-	-	-	-	25,816	-	25,816
Conversion of convertible loan notes	-	(36,813)	-	-	-	-	-	-	-	-	-	-	63,012	-	63,012
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(36,873)	-	(36,873)
At 30 June 2018	111,394	2,851,633	-	(122,789)	-	(33,341)	241,213	124,174	15,793	26,749	147,455	2,196,388	5,546,109	61,211	5,607,320
At 31 December 2018	112,894	2,982,319	(76,451)	(122,789)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,989	2,519,916	5,966,990	64,533	6,031,523
Impact of initial application of HKFRS 16	-	-	-	-	-	-	-	-	-	-	-	(6,556)	-	-	(6,556)
Adjusted balance at 1 January 2019	112,894	2,982,319	(76,451)	(122,789)	(13,834)	(12,091)	235,105	118,288	15,793	26,749	180,989	2,513,362	5,960,434	64,533	6,024,967
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	382,695	-	(7,226)	382,695
Other comprehensive (expenses) income for the period	-	-	-	-	-	(7,226)	-	-	-	-	-	-	(7,226)	-	(7,226)
Total comprehensive income (expenses) for the period	-	-	-	-	-	(7,226)	-	-	-	-	-	382,695	(7,226)	-	382,695
Recognition of share option expenses	3,488	215,150	-	-	-	6,339	-	-	-	-	-	-	6,339	-	6,339
Convertible loan notes	-	(46,122)	-	-	-	-	-	(15,245)	-	-	-	-	203,114	-	203,114
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(46,122)	-	(46,122)
Purchase of shares under share award scheme	-	-	-	-	-	-	-	-	-	-	-	-	(77,816)	-	(77,816)
At 30 June 2019	116,463	3,149,947	(154,267)	(122,789)	(13,834)	(19,317)	241,444	102,163	15,793	26,749	180,989	2,876,057	6,399,418	60,805	6,460,223

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Net cash used in operating activities	(582,936)	(868,958)
Net cash used in investing activities	(379,947)	(141,880)
Net cash generated from financial activities	634,634	173,283
Net decrease in cash and cash equivalents	(328,249)	(837,555)
Effect of foreign exchange rate changes	5,903	(1,146)
Cash and cash equivalents at the beginning of the period	2,646,375	1,785,305
Cash and cash equivalents at the end of the period	2,324,029	946,604

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 2018, except for the adoption of new standards and interpretations effective as at 1 January 2019.

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

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests In Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

2.1 Summary of effects arising from initial application of HKFRS 16

HKFRS 16 Leases introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Lease and the related interpretations when it becomes effective for annual periods beginning on or after 1 January 2019

The Group has implemented the new lease standards since 1 January 2019, and the accounting treatment has been conducted in accordance with the regulation in the transition period as required by the new lease standards. The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group has not reassessed whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the right-of-use assets and the corresponding liabilities in respect of all these leases unless they qualify for low value or short-term leases; based on the cumulative effect of initial application of the new lease standards, adjust the opening balance of retained earnings and the amount of other relevant items in financial statements at the beginning of the year (in which this standard was first applied), and not adjust the information of the comparative period.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	365,556
Lease liabilities discounted at relevant incremental borrowing rates and relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	232,920
Analysed as:	
Current	–
Non-current	232,920
	<hr/>
	232,920
	<hr/>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use Asset
	RMB'000
Right-of-use assets relating to operating leases	
– upon application of IFRS 16	229,051
Reclassified from land lease prepayments (note)	37,863
	<hr/>
	266,914
	<hr/>
By class:	
Buildings	229,051
Land lease prepayments	37,863
	<hr/>
	266,914
	<hr/>

Note:

Upfront payments for leasehold lands in the PRC were classified as Prepaid lease prepayment as at 31 December 2018. Upon application of IFRS 16, the prepaid lease payments amounting to RMB37,863,000 was reclassified to right-of-use assets.

2.2 Impacts on consolidated statement of financial position arising from the application of all new standards and related amendments

The following table summarise the impacts of applying HKFRS 16 on the Group's consolidated statement of financial position as at 1 January 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2018 Carrying Value (Audited) RMB'000	Impacts arising from the application of HKFRS 16 RMB'000	1 January 2019 Carrying Value under HKFRS 16 (Unaudited) RMB'000
Non-current assets			
Property, plant and equipment	837,634	2,078	839,712
Right-of-use asset	–	266,914	266,914
Prepaid lease payments	37,003	(37,003)	–
Other receivables	29,935	15,150	45,085
Current assets			
Prepaid lease payments	860	(860)	–
Trade and other receivables	2,585,247	(25,291)	2,559,956
Current Liabilities			
Trade and other payables	1,497,011	(5,376)	1,491,635
Non-current liabilities			
Lease Liabilities	–	232,920	232,920
Capital and reserves			
Reserves	2,948,128	(6,556)	2,941,572

2.3 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly and implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the assets; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At the inception of a contract that contains a lease component or when such contract is reassessed, the Group should allocate the consideration in the contract to each lease component on the basis of their relative standalone price.

As a lessee, the Group, recognises a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which consists of the amount of the initial measurement of the lease liability with adjustments to any lease payments made to the lessor at or before the commencement date, plus any initial direct costs incurred, and the estimate of costs to be incurred in dismantling and removing the underlying asset, or restoring the underlying asset or the site on which it is located to the required condition, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis starting from the commencement date, over the shorter of the estimated useful life of the right-of-use assets and the lease term. The estimated useful life of a right-of-use asset is determined on the same basis as the estimated useful life of property and equipment. Subsequently, any impairment loss should be deducted periodically from the right-of-use assets, and adjustments should be made for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, discounted using the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the lessee is reasonably certain to exercise; and
- amounts paid for termination of a lease, if the lease term is allowed to terminate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise the right-of-use assets and the lease liabilities for short-term leases of property that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line method over the lease term.

Refundable rental deposits paid

The Group's refundable rental deposits paid are payments not relating to the right to use the underlying assets, accordingly, the carrying amounts of the abovementioned deposits may be adjusted to amortised costs. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustment to refundable rental deposits received would be considered as advance lease payments.

Statement of cash flows

For the classification of cash flows, lease payments in relation to lease liability will be allocated by the Group into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Segment revenue 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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Technical professional services group (TPG)	4,748,340	4,029,252	407,891	424,265
Internet IT services group (IIG)	789,908	784,601	84,747	84,574
	5,538,248	4,813,853	492,638	508,839

During the six months ended 30 June 2019, the segment revenue is reported after eliminating inter-segment services revenue of RMB303,903,000 (2018: RMB248,651,000).

Reconciliation of segment results to profit before taxation:

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Segment results	492,638	508,839
Other income, gains and losses	1,032	4,468
Effective interest on convertible loan notes	(25,214)	(31,729)
Corporate expenses	(71,935)	(67,339)
Share option expenses	(6,339)	(25,816)
Profit before taxation	390,182	388,423

Segment revenue by products and services:

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Sales of software and hardware products	44,790	43,586
Technical professional services group (TPG)	4,731,848	4,011,444
Internet IT services group (IIG)	761,610	758,823
	5,493,458	4,770,267
	5,538,248	4,813,853

4. FINANCE COSTS

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Interest on borrowings wholly repayable within five years	55,183	22,844
Interest of lease liability	5,014	–
Effective interest on convertible loan notes	25,214	31,729
	85,411	54,573

5. TAXATION

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax	31,326	32,568
The US Federal and State Income taxes	(111)	50
	31,215	32,618

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

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

6. DIVIDEND

During the six months ended 30 June 2019, a final dividend of HK\$0.0215 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2018 (2017: HK\$0.018) was declared to the owners of the Company. The aggregate amount of the final dividend declared during the six months ended 30 June 2019 amounted to HK\$54,702,608 (2018: HK\$43,735,908).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2019 (2018: Nil).

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Earnings for the purposes of calculating basic earnings per share	362,695	358,759
Effect of dilutive potential profit attributable to owners of the Company:		
Interest on convertible loan notes	25,214	31,729
Earnings for the purpose of diluted earnings per share	387,909	390,488
	Number of shares	
	2019	2018
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,477,225,732	2,412,721,285
Effect of dilutive potential ordinary shares:		
Share options	25,525,194	101,948,279
Convertible loan notes	208,009,144	274,225,631
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,710,760,070	2,788,895,195

The computation of diluted earnings per share for the period ended 30 June 2019 did not assume the exercise of the Company's share options granted on 21 September 2017 and 28 September 2018 since the exercise prices of these share options were higher than the average market price of shares of the Company.

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

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Trade receivables, net of allowance	2,895,261	2,139,753
Advances to suppliers	175,941	193,787
Deposits, prepayments and other receivables, net of allowance	343,226	281,642
	<u>3,414,428</u>	<u>2,615,182</u>
Analysed for reporting purposes as:		
Non-current assets	48,030	29,935
Current assets	3,366,398	2,585,247
	<u>3,414,428</u>	<u>2,615,182</u>

Included in the non-current assets are other receivables representing deposits made in connection with an acquisition of an office building located in the PRC and the refundable lease deposit for the rental office.

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

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Within 90 days	2,213,402	1,681,131
Between 91 – 180 days	400,856	246,074
Between 181 – 365 days	219,889	168,267
Between 1 – 2 years	61,114	44,281
Over 2 years	–	–
	<u>2,895,261</u>	<u>2,139,753</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed each time.

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Trade payables	481,146	639,678
Other payables	502,933	857,333
	984,079	1,497,011

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 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Within 90 days	425,005	564,584
Between 91-180 days	14,771	5,620
Between 181-365 days	12,028	8,113
Between 1-2 years	15,756	35,431
Over 2 years	13,586	25,930
	481,146	639,678

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

The fair value of the Group's trade and other payables at 30 June 2019 was approximately equal to the corresponding carrying amount.

10. BORROWINGS

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Unsecured bank loans <i>(Note (i))</i>	2,202,724	1,673,873
Secured bank loans <i>(Note (ii))</i>	<u>338,000</u>	<u>1,773</u>
	<u>2,540,724</u>	<u>1,675,646</u>
	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Carrying amount repayable:		
Within one year	2,540,724	1,675,646
More than one year within five years	<u>–</u>	<u>–</u>
	2,540,724	1,675,646
Less: Amounts due within one year shown under current liabilities	<u>(2,540,724)</u>	<u>(1,675,646)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>

10. BORROWINGS (CONTINUED)

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Total borrowings		
At floating interest rates <i>(Note (iii))</i>	765,000	330,000
At fixed interest rates <i>(Note (iv))</i>	1,775,724	1,345,646
	2,540,724	1,675,646

Notes:

- (i) Guaranteed by the Company and certain subsidiaries of the Company.
- (ii) Bill receivables with a net carrying value of RMB338,000,000 (2018: trade receivables of RMB1,773,000) are pledged to secure certain bank loans granted to the Group.
- (iii) Interests on borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the first half year of 2019 is 4.70% (2018: 4.76%) per annum.
- (iv) Interests on fixed rates borrowings are charged at interest rates ranged from 4.02% to 5.22% (2018: 4.35% to 5.22%)

11. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

		Number of shares	Nominal amount HK\$
Authorised			
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019		4,000,000,000	200,000,000
	Number of shares	Nominal amount HK\$	Amount shown in the financial statements RMB'000
Issued and fully paid			
At 31 December 2017 and 1 January 2018	2,402,274,436	120,113,722	110,283
Exercise of options	1,500,000	75,000	61
Conversion of convertible loan notes	25,998,230	1,299,912	1,050
At 30 June 2018	2,429,772,666	121,488,634	111,394
At 31 December 2018 and 1 January 2019	2,466,312,666	123,315,634	112,994
Conversion of convertible loan notes	77,994,692	3,899,735	3,489
At 30 June 2019	2,544,307,358	127,215,369	116,483

12. CAPITAL COMMITMENTS

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	–	17,686
– investment in entity accounted for using equity method	93,300	113,100
	93,300	130,786

13. RELATED PARTY TRANSACTIONS

During the relevant periods in 2018 and 2019, the Group had the following transactions with the following related parties:

	For the six month ended 30 June	
	2019 RMB'000	2018 RMB'000
Provision of IT outsourcing services by the Group	–	1,707
Provision of IT solution services by the Group	549	22

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 RMB4,385,867,000, including the directors' emoluments of approximately RMB6,734,000 during the six months ended 30 June 2019 (2018: approximately RMB3,379,551,000, including the directors' emoluments of approximately RMB8,686,000). The increase in employee remuneration resulted from the increase in the number of employees from 54,663 to 60,455.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2019 of the Group amounted to approximately RMB30,150,000 (2018: RMB36,641,000) and approximately RMB119,057,000 (2018: RMB57,185,000), respectively.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2019, the board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules have served as guideposts for the Company to follow in its implementation of corporate governance measures.

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

In the opinion of the Board, the Group has complied with the CG Code from 1 January 2019 to 30 June 2019, except for the following deviations as explained:

- (i) The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1 of the CG Code). Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.
- (ii) Independent non-executive Directors and other non-executive Directors, as equal Board members should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors and non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 20 May 2019 (the “2018 AGM”), due to their respective business engagement. Other Board members who attended the 2018 AGM were available to answer questions to ensure effective communication with the shareholders (deviated from code provision A.6.7 of the CG Code).

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

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 2019.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2019, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name	Capacity	Number of issued ordinary shares held	Number of underlying shares held under equity derivatives	Approximate % of total issued ordinary share as at 30 June 2019	
				Total number of shares	
Chen Yuhong	Beneficial owner, through controlled corporation, founder of discretionary trust and beneficiary of trust	266,192,861	-	446,192,861	17.54%
	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	-	180,000,000 (Note 1)		
Tang Zhenming	Beneficial owner and beneficiary of trust	11,827,765	-	11,827,765	0.46%
Zhang Yaqin	Beneficial owner	1,500,000	-	1,500,000	0.06%
Gavriella Schuster	Beneficial owner	-	1,000,000 (Note 2)	1,000,000	0.04%

Notes:

- (1) Pursuant to the subscription of convertible notes with a total principal amount of HK\$900,000,000 (the "Dan Capital CB") issued by the Company on 3 July 2017 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership (collectively known as the "Dan Capital CB holders"), a concert party undertaking was entered by Dr. Chen Yuhong and the Dan Capital CB holders to regulate their dealings in the shares of the Company on 24 May 2017. As such, Dr. Chen was deemed to be interested in 180,000,000 underlying shares of the Company held by the Dan Capital CB holders for the purposes of section 317 of the SFO. The interests in 180,000,000 underlying shares of the Company represent 50,800,000 and 129,200,000 ordinary shares which will be allotted and issued to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership respectively upon conversion of the Dan Capital CB.
- (2) The interests in underlying shares of the Company represent interests in options granted to the director.

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 1 January 2019	No. of share options exercised during the period	No. of share options outstanding as at 30 June 2019	Percentage of total issued ordinary share of the Company as at	No of underlying ordinary shares interested in	Percentage of total issued ordinary share of the Company as at	Note
					30 June 2019	30 June 2019	30 June 2019	
Gavriella Schuster	5.22	1,000,000	-	1,000,000	0.04%	1,000,000	0.04%	(1)

Note:

- (1) These share options were offered on 28 September 2018 under the share option scheme of the Company adopted on 20 May 2013 and accepted on 26 October 2018. 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
28/09/2018	27/09/2021	30% of the total number of share options granted
28/09/2019	27/09/2021	30% of the total number of share options granted
28/09/2020	27/09/2021	40% of the total number of share options granted

Save as disclosed above and so far as was known to the Directors, as at 30 June 2019, none of the Directors or chief executive of the Company had any interests or shorts in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provision of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code, to be Company and the Stock Exchange.

SHARE OPTION SCHEME

As at 30 June 2019, pursuant to the new share option scheme approved by the shareholders at the AGM held on 20 May 2013 (the "New Share Option Scheme"), the share options to subscribe for an aggregate of 235,960,000 Shares granted to certain Directors, employees and suppliers of the Group were outstanding representing 9.27% of the total issued ordinary share capital of the Company as at 30 June 2019.

During the six months ended 30 June 2019, no share options were exercised, granted and lapsed under the New Share Option Scheme.

SHARE AWARD SCHEME

The share award scheme (the “Share Award Scheme”) was adopted by the Company on 10 December 2018. The Share Award Scheme shall be valid and effective for a period of 10 years commencing on 10 December 2018. The purposes of the Share Award Scheme are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Details of the Share Award Scheme are set out in the announcement of the Company dated 10 December 2018.

During the period ended 30 June 2019, a total consideration of approximately HK\$88,958,000 has been used to acquire 24,552,000 shares of the Company from open market by the independent trustee of the Company. As at 30 June 2019, an aggregate of 46,630,000 shares of the Company has been acquired from open market by the independent trustee of the Company, representing 1.83% of the total issued ordinary share capital of the Company as at 30 June 2019. As of the date of this report, no shares have been granted to any selected employees of the Group under the Share Award Scheme.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June 2019 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2019 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 2019, 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 2019.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2019, the following persons (not being a Director or chief executive of the Company) had interests or short position in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions/short positions in Shares

Name	Nature of interest	Approximate number of Shares	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Dan Capital Tangkula Limited Partnership (Note 1)	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	446,192,861 (L)	17.54%	16.38%
Dan Capital Kunlun Limited Partnership (Note 1)	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	446,192,861 (L)	17.54%	16.38%
UBS Group AG (Note 2)	Person having a security interest in shares	7,936,071 (L)	0.31%	0.29%
	Interest of controlled corporations	236,884,245 (L)	9.31%	8.70%
	Interest of controlled corporations	46,560,106 (S)	1.83%	1.71%
Prime Partners Development Limited (Note 3)	Beneficial interest	140,572,725 (L)	5.52%	5.16%
Milestones Asset Management Limited (Note 4)	Interest of controlled corporations	134,630,690 (L)	5.29%	4.94%
CSI Profit Share Scheme SPC – Phase One SP (Note 4)	Beneficial interest	134,630,690 (L)	5.29%	4.94%
OP Investment Management Limited (Note 4)	Investment manager	134,630,690 (L)	5.29%	4.94%
JPMorgan Chase & Co (Note 5)	Interest of controlled corporations	37,997,761 (L)	1.49%	1.39%
	Interest of controlled corporations	44,462,971 (S)	1.75%	1.63%
	Investment manager	2,712,000 (L)	0.11%	0.10%
	Person having a security interest in shares	1,076,400 (L)	0.04%	0.04%
	Approved lending agent	85,961,131 (P)	3.38%	3.16%

* The total number of issued share consists of 2,544,307,358 ordinary shares and convertible notes which could be converted into 180,000,000 ordinary shares.

Abbreviations: "L" stands for long position
 "S" stands for short position
 "P" stands for a lending pool

Notes:

- (1) Pursuant to the subscription of convertible notes with a total principal amount of HK\$900,000,000 (the "Dan Capital CB") issued by the Company on 3 July 2017 to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership (collectively known as the "Dan Capital CB holders"), 50,800,000 and 129,200,000 ordinary shares which will be allotted and issued to Dan Capital Tangkula Limited Partnership and Dan Capital Kunlun Limited Partnership respectively upon conversion of the Dan Capital CB. A concert party undertaking was entered by Dr. Chen Yuhong and the Dan Capital CB holders to regulate their dealings in the shares of the Company on 24 May 2017, as such, Dan Capital CB holders were deemed to be interested in 266,192,861 underlying shares of the Company held by Dr. Chen for the purposes of section 317 of the SFO.
- (2) UBS AG, UBS Financial Services Inc., UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management Trust Company, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG, UBS Securities LLC and UBS Switzerland AG are the wholly-owned subsidiaries of UBS Group AG. Accordingly, UBS Group AG is deemed to be interested in the long positions of 244,820,316 shares and short positions of 46,560,106 shares in the Company held by these companies as disclosed above. Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 18 June 2019 for further details of the shareholding structure.
- (3) Dr. Chen Yuhong is deemed to be interested in 140,572,725 Ordinary Shares and through Prime Partners Development Limited, which is wholly owned by Dr. Chen Yuhong.
- (4) Milestones Asset Management Limited ("Milestones") is deemed to be interested in 134,630,690 ordinary shares in the Company through its interest in the entire issue of management shares in CSI Profit Share Scheme SPC – Phase One SP ("the Profit Share Fund"). The Profit Share Fund is an employee owned fund comprises the Company's management and core talents. Milestones has delegated the investment management of the Profit Share Fund to OP Investment Management Limited.
- (5) Such long position includes derivative interests in 33,205,572 underlying shares of the Company of which 11,572,000 underlying shares are derived from unlisted and physically settled derivatives, 21,633,572 underlying shares are derived from unlisted and cash settled derivatives.

Such short position includes derivative interests in 23,336,224 underlying shares of the Company of which 16,768,000 underlying shares are derived from listed and cash settled derivatives, 6,522,224 underlying shares are derived from unlisted and physically settled derivatives and 46,000 underlying shares are derived from unlisted and cash settled derivatives.

Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 18 June 2019 for further details of the shareholding structure.

Save as disclosed above, as at 30 June 2019, 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 2019, 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 CG Code 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 comprised three independent non-executive Directors namely Professor Mo Lai Lan as the Chairman of the Audit Committee and Mr. Zeng Zhijie and Dr. Lai Guangrong as the members of the Audit Committee.

The Audit Committee has reviewed the Group's interim result for the six months ended 30 June 2019 in compliance with Rule 3.21 of the Listing Rules, and the relevant code provisions of the CG Code of the Listing Rules and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that the interim result for the six months ended 30 June 2019 have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim report.

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

During the period ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the open market a total of 24,552,000 shares of the Company at a total consideration of approximately HKD88,958,000.

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 2019.

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

19 August 2019, Hong Kong