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中软国际

**CHINASOFT INTERNATIONAL LIMITED**

中軟國際有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 354)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

The board (the “Board”) of directors (the “Directors”) of Chinasoft International Limited (“Chinasoft” or the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019, together with the comparative audited consolidated figures for the year ended 31 December 2018 are as follows:

<b>HIGHLIGHTS</b>			
<b>Results for the year ended 31 December 2019</b>			
<b>Income statement highlights</b>	<b>2019</b>	<b>2018</b>	<b>Growth rate</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>	
Revenue	<b>12,041,895</b>	10,585,013	13.8%
Service revenue	<b>11,636,730</b>	10,339,012	12.6%
Profit for the year	<b>756,686</b>	716,171	5.7%
Profit for the year attributable to owners of the Company	<b>754,888</b>	715,803	5.5%
Basic earnings per share (cents)	<b>30.71</b>	29.54	4.0%

- The Board recommended the payment of a final dividend for the year ended 31 December 2019 of HK\$0.0219 per share.
- In order to ascertain the right to attend the forthcoming annual general meeting, the Register of Member will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020, both dates inclusive, during which period no share transfer shall be registered.

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

*FOR THE YEAR ENDED 31 DECEMBER 2019*

	<i>NOTES</i>	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	3	<b>12,041,895</b>	10,585,013
Cost of sales and services		<b>(8,458,802)</b>	(7,340,356)
Gross profit		<b>3,583,093</b>	3,244,657
Other income		<b>177,811</b>	64,078
Loss from derecognition of financial assets measured at amortised cost		<b>(4,544)</b>	(7,139)
Impairment losses, under expected credit loss model, net of reversal		<b>(74,812)</b>	(35,200)
Other gains or losses		<b>(34,911)</b>	(5,669)
Selling and distribution costs		<b>(617,554)</b>	(495,524)
Administrative expenses		<b>(1,195,874)</b>	(1,091,148)
Research and development costs		<b>(808,949)</b>	(739,434)
Other expenses		<b>(58,929)</b>	(68,402)
Finance costs		<b>(166,045)</b>	(117,987)
Share of results of investments accounted for using the equity method		<b>(328)</b>	12,222
Profit before taxation		<b>798,958</b>	760,454
Income tax expense	4	<b>(42,272)</b>	(44,283)
Profit for the year		<b>756,686</b>	716,171

	<i>NOTES</i>	<b>2019</b> <b>RMB'000</b>	2018 <i>RMB'000</i>
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument		<u>–</u>	<u>(13,834)</u>
Item that may be reclassified subsequently to profit or loss:			
– exchange differences arising on translation of foreign operations		<u>(5,875)</u>	<u>19,383</u>
Other comprehensive income (expense) for the year, net of tax		<u>(5,875)</u>	<u>5,549</u>
Total comprehensive income for the year		<u><b>750,811</b></u>	<u>721,720</u>
Profit (loss) for the year attributable to:			
Owners of the Company		<b>754,888</b>	715,803
Non-controlling interests		<u><b>1,798</b></u>	<u>368</u>
		<u><b>756,686</b></u>	<u>716,171</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		<b>749,013</b>	721,352
Non-controlling interests		<u><b>1,798</b></u>	<u>368</u>
		<u><b>750,811</b></u>	<u>721,720</u>
Earnings per share	6		
Basic		<u><b>RMB0.3071</b></u>	<u>RMB0.2954</u>
Diluted		<u><b>RMB0.3005</b></u>	<u>RMB0.2789</u>

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2019*

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

	<i>NOTES</i>	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		<b>10,287</b>	11,062
Convertible loan notes		<b>727,672</b>	719,941
Lease liabilities		<b>123,734</b>	–
Borrowings		<b>200,000</b>	–
		<u><b>1,061,693</b></u>	<u>731,003</u>
		<u><b>6,533,940</b></u>	<u>6,031,523</u>
Capital and reserves			
Share capital		<b>116,325</b>	112,994
Treasury shares		<b>(470,752)</b>	(76,451)
Share premium and other reserves		<b>6,822,037</b>	5,930,447
		<u><b>6,467,610</b></u>	<u>5,966,990</u>
Equity attributable to owners of the Company		<u><b>6,467,610</b></u>	<u>5,966,990</u>
Non-controlling interests		<u><b>66,330</b></u>	<u>64,533</u>
		<u><b>6,533,940</b></u>	<u>6,031,523</u>
Total equity		<u><b>6,533,940</b></u>	<u>6,031,523</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

## 1. GENERAL INFORMATION OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 20 June 2003. On 29 December 2008, the listing of the shares of the Company was transferred to the Main Board of the Stock Exchange. The addresses of the registered office and principal places of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Company.

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

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

### New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 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 new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretation.

### 3. REVENUE AND SEGMENT INFORMATION

#### *Segment revenue and results*

Information reported to the chief executive officer of the Company, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on the category of customers by the Group’s operating divisions.

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

1. Technical professional services group (“TPG”) – development, provision of solutions, IT outsourcing services for banks and other financial institutions, telecommunication carriers and other large-scale multinational companies, including sale of products.
2. Internet IT services group (“IIG”) – development, provision of solutions and IT outsourcing services for government, tobacco industry and other small-scaled companies and training business, including sale of products.

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

	<u>Segment revenue</u>		<u>Segment results</u>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<i><b>RMB’000</b></i>	<i>RMB’000</i>	<i><b>RMB’000</b></i>	<i>RMB’000</i>
TPG	<b>10,458,258</b>	9,174,855	<b>891,035</b>	795,281
IIG	<b>1,583,637</b>	1,410,158	<b>97,645</b>	133,064
	<b><u>12,041,895</u></b>	<u>10,585,013</u>	<b><u>988,680</u></b>	<u>928,345</u>

Segment revenue reported above represents revenue generated from external customers. Inter-segment services are charged at a cost plus margin basis.

Segment results represent the profit earned by each segment without allocation of impairment loss recognised in respect of goodwill, corporate expenses, share option expenses, interest on convertible loan notes and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

#### *Segment assets and liabilities*

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

#### 4. INCOME TAX EXPENSE

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Income Tax expenses	<b><u>42,272</u></b>	<u>44,283</u>

Under the Law of the PRC on Enterprise Income Tax (“EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards unless subject to tax exemptions.

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

#### 5. DIVIDENDS

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

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



## 6. EARNINGS PER SHARE

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	<b>754,888</b>	715,803
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	<b>46,342</b>	59,236
	<u><b>801,230</b></u>	<u>775,039</u>
Earnings for the purpose of diluted earnings per share	<b>801,230</b>	775,039
	<b>2019</b>	2018
	<b>'000</b>	<b>'000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,458,500</b>	2,423,085
Effect of dilutive potential ordinary shares:		
Share options	<b>14,149</b>	89,429
Convertible loan notes	<b>193,676</b>	266,115
	<u><b>2,666,325</b></u>	<u>2,778,629</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,666,325</b>	2,778,629

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

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

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

## 7. TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables, net of allowance	<u><b>2,978,781</b></u>	<u>2,139,753</u>

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

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

## 8. TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	<u><b>423,757</b></u>	<u>639,678</u>

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

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

## **9. EVENTS AFTER THE REPORTING PERIOD**

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

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

- (b) In January 2020, the Company raised a bank loan of HK\$100 million with a repayment period of three years.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

### KEY OPERATING DATA:

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	<b>RMB'000</b>	RMB'000	
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Service revenue	<b>11,636,730</b>	10,339,012	12.6%
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Loss from derecognition of financial assets measured at amortised cost	<b>(4,544)</b>	(7,139)	(36.3%)
Impairment losses, under expected credit loss model, net of reversal	<b>(74,812)</b>	(35,200)	112.5%
Other gains or losses	<b>(34,911)</b>	(5,669)	515.8%
Selling and distribution costs	<b>(617,554)</b>	(495,524)	24.6%
Administrative expenses	<b>(1,195,874)</b>	(1,091,148)	9.6%
Research and development costs	<b>(808,949)</b>	(739,434)	9.4%
Other expenses	<b>(58,929)</b>	(68,402)	(13.8%)
Finance costs	<b>(166,045)</b>	(117,987)	40.7%
Share of results of investments accounted for using the equity method	<b>(328)</b>	12,222	(102.7%)
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## GENERAL OVERVIEW

In the battle of 2019, facing the increasing unfavorable conditions of external environment and increasing downward pressure on the economy, the Company continued to consolidate the cornerstone business focusing on technical professional services and solutions, and accelerated the expansion of digital represented by cloud intelligence. The business, based on domestic and global layout, adhered to its ideology of “drawing one blueprint”, and achieved sustained and steady growth in performance. The Company was successfully ranked among Gartner’s top 100 global IT service providers, demonstrating the value and role of China’s leading IT companies.

During the reporting period, Huawei’s business continued to expand and actively assisted Kunpeng Cloud and HMS in building their ecosystems. The Company signed the first Huawei Kunpeng Cloud migration framework agreement and successfully launched on the official Huawei Cloud website. The Company continued to provide high-quality IT services for Huawei HMS upgrades. The Company entered the list of IT core suppliers for Huawei Consumer Business Group and became the best framework supplier of the year. The Company and Huawei’s “Co-sell” model achieved business breakthrough to delivery and implementation. HSBC’s banking business continued to maintain and expand its competitive advantages in digital transformation business delivery capabilities, and realized the transformation from traditional business to managed service model. The Company launched HSBC’s next-generation digital commercial banking platform to serve hundreds of thousands of commercial bank customers.

During the reporting period, the Company continued to deepen its cooperation with Tencent, signed a strategic cooperation agreement with Tencent, and collaboratively explored the 2B business market. The co-establishment of the Shenzhen Offshore Delivery Center began its operations. Alibaba’s business continued to grow steadily. Important cooperating projects such as Alibaba Cloud Intelligence, basic product elastic computing, IoT, and data intelligence have successfully completed independent delivery. Baidu’s business achieved stable growth. The Company signed a strategic cooperation agreement with Baidu’s intelligent driving business group to deepen cooperation in the areas of autonomous driving, smart cities, and data analysis to promote the implementation of AI technology applications. Microsoft’s business has grown steadily. As a strategic partner of Microsoft Azure Cloud and Dynamics CRM, the Company has extensive market cooperation with Microsoft to provide high-quality consulting and implementation services. Ping An’s business grew rapidly. The company is committed to Ping An’s great financial business sector to assist Ping An in mining artificial intelligence application scenarios in the financial field and completing business layout in the medical and education fields.

During the reporting period, the Company continued to optimize and upgrade the Jointforce platform, launched new functions and launched special dedicated service zones. Jointforce’s Cloud Integrative service has entered into rapid marketing and promotion phase, and it has signed with 10 new cities nationwide, providing approximately 2,400 government IT projects with monetary value of over 1 billion RMB. The “Plan Z” transformation of the cornerstone business has achieved initial results. As of the end of 2019, the total amount of the “Plan Z” contracts has exceeded RMB300 million, and more than 700 suppliers have signed up.

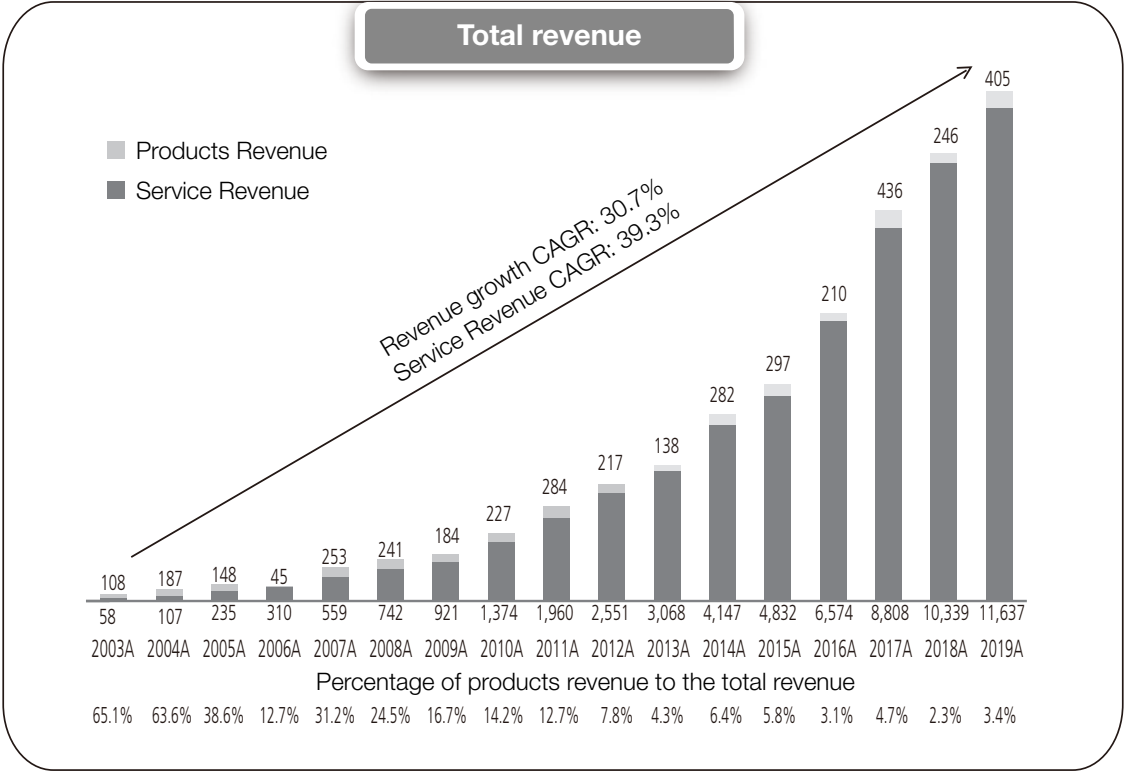
During the reporting period, the Company made significant breakthroughs in cloud management service, and its cloud products and cloud solution capabilities have significantly improved. The Company continued its Exchange and Oracle cloud service development, launched and marketed Huawei Cloud Disaster Recovery Services and other solutions, launched cloud management service platform V1.0, servicing close to a hundred of Huawei's cloud clients. The Company's enterprise cloud disk was launched in the overseas "Selected Market" of Huawei. Furthermore, the Company's smart parks and smart retails have also settled in the Huawei overseas "Selected Market" and released solutions. The Company cooperated with cloud service providers including Huawei, Tencent, and Microsoft to vigorously develop a multi-cloud ecosystem, becoming the first batch of partners to join the "Huawei Kunpeng Cloud Partner Program". The Company continued to deepen Huawei Cloud's "Sailing on the Same Boat" cooperation and became a gold supplier of Huawei cloud services. The Company continued to deepen cooperation with Tencent Cloud and became the official regional authorized service center designated by Tencent Cloud. Lastly, the Company developed cooperation with Microsoft Azure Cloud to build Azure cloud application migration and cloud solutions.

During the reporting period, the Company's big data business firmly followed the Company's innovation and transformation strategy and further strengthened intra-group synergy to ecosystem cooperation. The Company accelerated industry replication in advantages and strategic areas such as transportation, manufacturing, real estate, and government. This has become an important driver in the Company's cloud and digital transformation business expansion. The Company continued to invest in big data research and development, consolidate industry solutions, and continuously improved data asset management products.

During the reporting period, in face of complex and changing international situation, the Company strengthened the management of business continuity such as the supply of human resources to customers, production safety operations, and operating cash flow security. Especially in terms of cash flow security, the Company strengthened the management of receivable collection, laying a solid foundation for the company's sustainable and stable operation and long-term development.

Looking into the future, the Company will cooperate with strategic customers such as Huawei with "Zero Distance Innovation", continue to improve service capabilities and customer satisfaction with the supplier development plan, use Jointforce's thinking to transform the cornerstone business, use AI and big data, and focus on cloud intelligent business to realize the Company's cloud intelligent transformation strategy. The Company will continue to demonstrate the value of a "fighter" and continue to move towards its goal of a world-class IT leader.

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 30.7% and 39.3% from 2003-2019. The details are as follow:



**CUSTOMERS**

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

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

**MARKET**

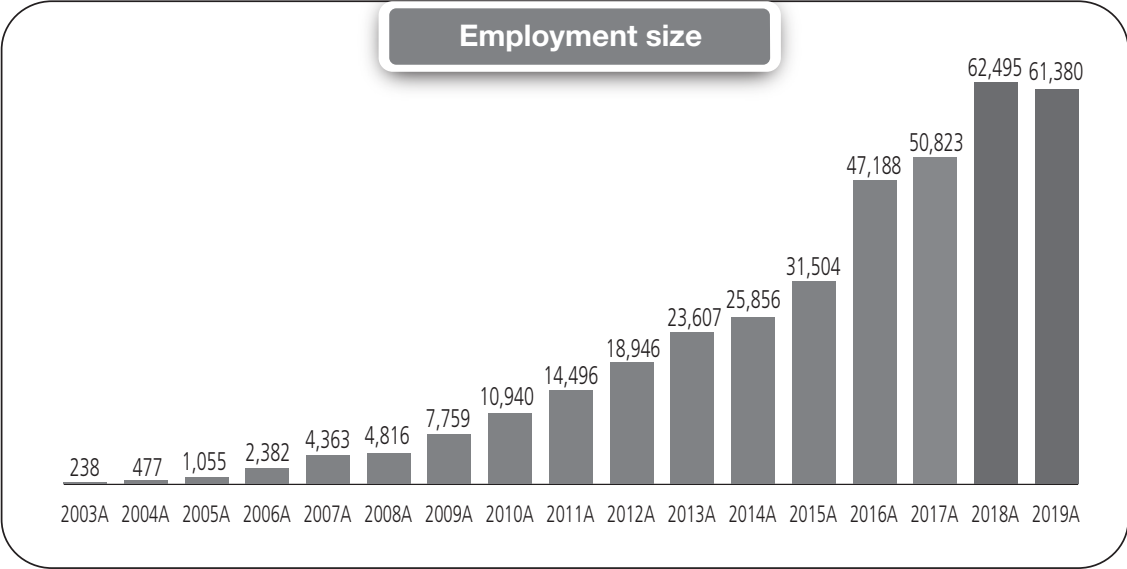
During the reporting period, the Company’s main businesses were concentrated in the Greater China region. The huge market potential in the Greater China region continued to bring growth opportunities for the Company. The Company provides ITS to customers from 32 countries and a number of Top 500 companies,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

**HUMAN RESOURCES**

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

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

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





## OPERATING RESULTS

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

	2019 RMB'000	Percentage of revenue	Percentage of service revenue	2018 RMB'000	Percentage of revenue	Percentage of service revenue
Revenue	12,041,895	N/A	N/A	10,585,013	N/A	N/A
Service revenue	11,636,730	N/A	N/A	10,339,012	N/A	N/A
Cost of sales and services	<u>(8,458,802)</u>	<u>(70.2%)</u>	<u>(72.7%)</u>	<u>(7,340,356)</u>	<u>(69.3%)</u>	<u>(71.0%)</u>
Gross profit	3,583,093	29.8%	30.8%	3,244,657	30.7%	31.4%
Other income	177,811	1.5%	1.5%	64,078	0.6%	0.6%
Loss from derecognition of financial assets measured at amortised cost	(4,544)	(0.0%)	(0.0%)	(7,139)	(0.1%)	(0.1%)
Impairment losses, under expected credit loss model, net of reversal	(74,812)	(0.6%)	(0.6%)	(35,200)	(0.3%)	(0.3%)
Other gains or losses	(34,911)	(0.3%)	(0.3%)	(5,669)	(0.1%)	(0.1%)
Selling and distribution costs	(617,554)	(5.1%)	(5.3%)	(495,524)	(4.7%)	(4.8%)
Administrative expenses	(1,195,874)	(9.9%)	(10.3%)	(1,091,148)	(10.3%)	(10.6%)
Research and development costs	(808,949)	(6.7%)	(7.0%)	(739,434)	(7.0%)	(7.2%)
Other expenses	(58,929)	(0.5%)	(0.5%)	(68,402)	(0.6%)	(0.7%)
Finance costs	(166,045)	(1.4%)	(1.4%)	(117,987)	(1.1%)	(1.1%)
Share of results of investments accounted for using the equity method	<u>(328)</u>	<u>(0.0%)</u>	<u>(0.0%)</u>	<u>12,222</u>	<u>0.1%</u>	<u>0.1%</u>
Profit before taxation	798,958	6.6%	6.9%	760,454	7.2%	7.4%
Income tax expense	<u>(42,272)</u>	<u>(0.4%)</u>	<u>(0.4%)</u>	<u>(44,283)</u>	<u>(0.4%)</u>	<u>(0.4%)</u>
Profit for the year	756,686	6.3%	6.5%	716,171	6.8%	6.9%
Profit for the year attributable to owners of the Company	<u><u>754,888</u></u>	<u><u>6.3%</u></u>	<u><u>6.5%</u></u>	<u><u>715,803</u></u>	<u><u>6.8%</u></u>	<u><u>6.9%</u></u>

## REVENUE

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

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

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

## COST OF SALES AND SERVICES

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

## GROSS PROFIT

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

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

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

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

### **OTHER INCOME**

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

### **OTHER GAINS OR LOSSES**

In 2019, the Company's other losses was RMB34.911 million (2018: RMB5.669 million). This was mainly due to the impairment of goodwill on the assets acquired in the previous period by the Company.

### **OPERATING EXPENSES**

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

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

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

### **FINANCIAL COSTS AND INCOME TAX**

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

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

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

#### **OTHER NON-CASH EXPENSES**

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

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

#### **PROFIT FOR THE YEAR AND EARNINGS PER SHARE (EPS)**

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

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

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

## SEGMENT REVENUE AND RESULTS

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

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

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

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

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

## FUNDRAISING ACTIVITIES

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

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

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

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

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

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

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

## **CORPORATE GOVERNANCE PRACTICES**

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

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

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

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

## **DIRECTORS’ SECURITIES TRANSACTIONS**

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

## **COMPETING INTERESTS**

As at 31 December 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.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the year ended 31 December 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 123,932,000 shares of the Company at a total consideration of approximately HK\$441,308,000.



## **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “Audit Committee”) on 2 June 2003 and amended its written terms of reference on 28 March 2012, 31 December 2015 and 9 January 2019 to comply with the requirements in the CG Code. The terms of reference of the Audit Committee, a copy of which is posted on the website of the Company and the Stock Exchange, are in line with the provisions of the CG Code. The Audit Committee is mainly responsible for reviewing and supervising the Group’s financial reporting and internal control system. The Audit Committee met at least on a semi-yearly basis during the year ended 31 December 2019.

During the year from 1 January 2019 to 31 December 2019, 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 Group’s unaudited interim results and unaudited annual results during the year ended 31 December 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

## **FINAL DIVIDEND**

The Directors have recommended the payment of a final dividend of HK\$0.0219 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2019. The proposed dividend payments from share premium account of the Company are subject to approval by the shareholders of the Company at the annual general meeting to be held on Monday, 18 May 2020 at 3:00 p.m.. Upon shareholders’ approval at the upcoming annual general meeting, the proposed final dividend will be paid on Wednesday, 10 June 2020 to shareholders whose names shall appear on the register of members of the Company on Friday, 29 May 2020.

## **CLOSURE OF REGISTER OF MEMBERS**

- (a) For the purpose of determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020, both days inclusive. In order to qualify as shareholders of the Company to attend and vote at the AGM, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 12 May 2020.
  
- (b) For the purpose of determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 27 May 2020 to Friday, 29 May 2020, both days inclusive. In order to qualify for the entitlement to the proposed final dividend, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 May 2020.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company is proposed to hold on Monday, 18 May 2020 at 3:00 p.m.. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

## **REVIEW OF UNAUDITED ANNUAL RESULTS**

The external audit for the annual results for the year ended 31 December 2019 has not been completed amid quarantine measures imposed by certain provincial government and travel restrictions in China following the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed with the Group's auditors as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An announcement relating to the audited results will be made upon completion of the audit in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement has been prepared in English and Chinese respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with International Financial Reporting Standards, where the English version shall prevail. This announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinasofti.com](http://www.chinasofti.com)). The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board  
**Chinasoft International Limited**  
**Dr. CHEN Yuhong**  
*Chairman and Chief Executive Officer*

Hong Kong, 25 March 2020

*As at the date of this announcement, the Board comprises two executive Directors, namely Dr. Chen Yuhong (Chairman and Chief Executive Officer) and Dr. Tang Zhenming, three non-executive Director, namely Dr. Zhang Yaqin, Mr. Gao Liangyu and Mrs. Gavriella Schuster, and three independent non-executive Directors, namely Mr. Zeng Zhijie, Dr. Lai Guanrong and Professor Mo Lai Lan.*

\* *For identification purposes only*