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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 2016**

The board (the “Board”) of directors (the “Directors”) of Chinasoft International Limited (“Chinasoft” or the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016, together with the comparative audited consolidated figures for the year ended 31 December 2015 are as follows:

HIGHLIGHTS			
Results for the year ended 31 December 2016			
Income statement highlights	2016	2015	Growth rate
	<i>RMB'000</i>	<i>RMB'000</i>	
Turnover	6,783,367	5,129,111	32.3%
Revenue from service	6,573,770	4,831,722	36.1%
Profit attributable to owners of the Company	442,081	280,056	57.9%
Basic earnings per share (cents)	20.34	14.05	44.8%
Net cash generated from operating activities	291,734	259,561	12.4%

- The Board recommended the payment of a final dividend for the year ended 31 December 2016 of HK\$0.012 per share.
- In order to ascertain the right to attend the forthcoming annual general meeting, the Register of Member will be closed from Monday, 15 May 2017 to Thursday 18 May 2017, both dates inclusive, during which period no share transfer shall be registered.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>NOTES</i>	2016 RMB'000	2015 RMB'000
Turnover	3	6,783,367	5,129,111
Cost of sales and services		(4,767,529)	(3,605,903)
Gross profit		2,015,838	1,523,208
Other income		41,908	46,259
Other gains or losses		1,807	(17,625)
Selling and distribution costs		(219,022)	(178,581)
Administrative expenses		(806,614)	(627,264)
Research and development costs		(345,269)	(195,318)
Allowance for doubtful debts		(17,958)	(62,055)
Other expenses		(88,012)	(91,961)
Fair value change on derivative financial instruments		–	(1,074)
Finance costs	4	(95,735)	(92,509)
Share of results of investments accounted for using the equity method		17,492	1,907
Gain on disposal of subsidiaries		–	111,724
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary		20,152	3,283
Profit before taxation		524,587	419,994
Income tax expense	5	(114,754)	(87,010)
Profit for the year	6	409,833	332,984

	<i>NOTE</i>	2016 RMB'000	2015 <i>RMB'000</i>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– exchange differences arising on translation of foreign operations		19,497	10,236
– reclassification to profit or loss upon disposal of a subsidiary		<u>–</u>	<u>3,355</u>
Other comprehensive income for the year, net of tax		<u>19,497</u>	<u>13,591</u>
Total comprehensive income for the year		<u>429,330</u>	<u>346,575</u>
Profit (loss) for the year attributable to:			
Owners of the Company		442,081	280,056
Non-controlling interests		<u>(32,248)</u>	<u>52,928</u>
		<u>409,833</u>	<u>332,984</u>
Total comprehensive income (expenses) attributable to:			
Owners of the Company		461,578	293,548
Non-controlling interests		<u>(32,248)</u>	<u>53,027</u>
		<u>429,330</u>	<u>346,575</u>
Earnings per share	8		
Basic		<u>RMB0.2034</u>	<u>RMB0.1405</u>
Diluted		<u>RMB0.1979</u>	<u>RMB0.1360</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		819,799	537,593
Intangible assets		231,075	283,103
Goodwill		1,008,479	995,610
Investments accounted for using the equity method		104,190	78,857
Available-for-sale investment		61,965	49,151
Prepaid lease payments		38,723	39,583
Other receivable	9	30,000	11,688
Deferred tax assets		7,646	6,516
		2,301,877	2,002,101
Current assets			
Inventories		20,893	30,260
Trade and other receivables	9	2,092,700	1,429,127
Bills receivable		23,186	8,828
Prepaid lease payments		860	893
Amounts due from customers for contract work	10	1,430,206	1,516,660
Amounts due from related companies		59,939	49,862
Pledged deposits		670	44,891
Bank balances and cash		1,298,972	1,265,831
		4,927,426	4,346,352
Current liabilities			
Amounts due to customers for contract work	10	122,271	87,750
Trade and other payables	11	1,203,843	940,372
Bills payable		812	2,120
Amounts due to related companies		37,983	34,667
Dividend payable		83	78
Taxation payable		130,450	87,353
Convertible loan notes		–	89,622
Borrowings	12	922,452	1,297,016
Consideration payable on acquisition of a subsidiary		21,035	–
		2,438,929	2,538,978
Net current assets		2,488,497	1,807,374
Total assets less current liabilities		4,790,374	3,809,475

	<i>NOTE</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		18,943	20,504
Consideration payable on acquisition of a subsidiary		–	39,205
Convertible loan notes		244,296	–
Borrowings	<i>12</i>	194,496	263,496
		<u>457,735</u>	<u>323,205</u>
		<u>4,332,639</u>	<u>3,486,270</u>
Capital and reserves			
Share capital		106,387	95,645
Share premium		2,652,697	2,106,029
Reserves		1,505,130	1,045,531
		<u>4,264,214</u>	<u>3,247,205</u>
Equity attributable to owners of the Company		4,264,214	3,247,205
Non-controlling interests		68,425	239,065
		<u>4,332,639</u>	<u>3,486,270</u>
Total equity		<u>4,332,639</u>	<u>3,486,270</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 consolidated financial statements are presented in Renminbi, 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, IT emerging services and training services.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year.

Amendments to HKAS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 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.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively and information to particulars of subsidiaries of the Company was reordered. Other than the above presentation and disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

3. TURNOVER AND SEGMENT INFORMATION

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

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, emerging and 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

Information regarding the above segments is reported as below.

Segment revenues and results

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

	Segment revenue		Segment results	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Technical professional services business	5,481,921	3,780,692	533,611	300,814
Internet IT services business	1,301,446	1,348,419	115,656	128,574
	6,783,367	5,129,111	649,267	429,388

Reconciliation of segment results to profit before taxation:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Segment results	649,267	429,388
Other income, gains and losses unallocated	4,727	86,329
Interest charge on convertible loan notes	(32,792)	(8,736)
Corporate expenses	(71,482)	(75,559)
Share option expenses	(45,285)	(13,637)
Fair value change on derivative financial instruments	–	(1,074)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	20,152	3,283
Profit before taxation	524,587	419,994

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

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

Segment assets and liabilities

Information reported to the CODM for the purposes of resources allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

Geographical information

The Group's operations are mainly located in its country of domicile (i.e. the PRC) and to a lesser extent, USA and Japan.

The Group's revenues from external customers (based on location of the operations) by geographical location are detailed below:

	Revenues from external customers	
	2016	2015
	RMB'000	RMB'000
PRC	6,338,687	4,571,517
USA	408,062	524,057
Japan	36,618	33,537
	6,783,367	5,129,111

Segment revenue by products and services:

	2016	2015
	RMB'000	RMB'000
Sale of software and hardware products	209,597	297,389
Provision of services		
Technical professional services	5,413,546	3,578,708
Internet IT services	1,160,224	1,253,014
	6,573,770	4,831,722
	6,783,367	5,129,111

Information about major customers

Revenues from customer of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Customer A ¹	<u><u>3,634,503</u></u>	<u><u>1,952,239</u></u>

¹ Revenue from TPG.

No other single customers contributed 10% or more to the Group's revenue for both 2016 and 2015.

Other segment information

2016	IIG <i>RMB'000</i>	TPG <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	60,003	82,299	2,045	144,347
Allowance (reversal of allowance) for doubtful debts	26,631	(8,673)	–	17,958
Loss on disposal of property, plant and equipment	27	76	–	103
	<u><u>27</u></u>	<u><u>76</u></u>	<u><u>–</u></u>	<u><u>103</u></u>
2015	IIG <i>RMB'000</i>	TPG <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss				
Depreciation and amortisation	61,092	80,026	1,490	142,608
Allowance for doubtful debts	26,211	35,844	–	62,055
Loss on disposal of property, plant and equipment	76	360	–	436
	<u><u>76</u></u>	<u><u>360</u></u>	<u><u>–</u></u>	<u><u>436</u></u>

4. FINANCE COSTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest on borrowings wholly repayable within five years	69,633	78,995
Interest on borrowings not wholly repayable within five years	–	13,133
Imputed interest on consideration payable on acquisition of a subsidiary	918	1,287
Effective interest on convertible loan notes	32,792	8,736
Loss on derecognition of trade receivables	4,329	3,491
	<u>107,672</u>	<u>105,642</u>
Total borrowing cost	107,672	105,642
Less: amounts capitalised in construction in progress (<i>Note</i>)	(11,937)	(13,133)
	<u>95,735</u>	<u>92,509</u>

Note: The amount represents the actual borrowing costs incurred on the specific borrowings for the purpose of constructing a property.

5. INCOME TAX EXPENSE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	129,162	84,916
– over-provision in prior years	(12,250)	(9,129)
	<u>116,912</u>	<u>75,787</u>
The US Federal and State Income taxes	48	4,727
Japan Corporate Income Tax	485	283
	<u>117,445</u>	<u>80,797</u>
Deferred tax	(2,691)	6,213
	<u>114,754</u>	<u>87,010</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "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 exemption set out below.

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 30 October 2014, Chinasoft International Information Technology Limited (the "CSIBJ") had been designated as a High and New Technology Enterprise ("HNTE") till the end of 2017. As a result, CSIBJ was subject to the income tax rate of 15% for both years.

Pursuant to certificates issued by Beijing Municipal Science and Technology Commission dated 28 October 2011 and 30 October 2014, Chinasoft Resources Information Technology Service Limited. (the “CSRBJ”) had been designated as a HNTE till the end of 2014 and extended for another three years till the end of 2017. As a result, CSRBJ was subject to the income tax rate of 15% for both years.

Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 23 October 2014, Shanghai Huateng Software Systems Co., Ltd (the “SHHT”) had been designated as a HNTE till the end of 2017. As a result, SHHT is subject to the income tax rate of 15% for the year ended 31 December 2015. In addition, according to the Notice of the Ministry of Industry and Information Technology, the Ministry of Finance, the State Taxation Administration and National Development Reform Commission on Relevant Issues Concerning the Preferential Policies on Enterprise Income Tax of Software and Integrated Circuit Industry (“Cai Shui 2016 No. 49”), and the Notice of the Ministry of Finance and the State Taxation Administration on Further Encouraging the Development of Enterprise Income Tax Policies for the Software Industry and Integrated Circuit Industry (“Cai Shui 2012 No. 27”), SHHT was entitled to a reduced income tax rate of 10% for the year ended 31 December 2016.

Pursuant to a certificate issued by the Industry and Information Technology Department of Shanxi Province dated 25 December 2012, Chinasoft International Technology Services Limited (the “CSITS XA”) had been designated as a software enterprise for a period up to 25 December 2017. As such, CSITS XA was entitled to the two years’ exemption from income tax followed by three years of 50% tax reduction with effect from 2012. As a result, CSITS XA is entitled a 50% tax reduction for the year ended 31 December 2015. In addition, according to Cai Shui 2016 No. 49, and Cai Shui 2012 No. 27, CSITS XA was entitled to a reduced income tax rate of 10% for the year ended 31 December 2016 as compared to 12.5% for the year ended 31 December 2015 (50% tax reduction).

Pursuant to a certificate issued by the Industry and Information Technology Department of Liaoning Province dated 10 September 2013, Chinasoft International Technology service (Dalian) Ltd. (the “CSITS DL”) had been designated as a software enterprise up to 31 December 2017. As such, CSITS DL was entitled to the two years’ exemption from income tax followed by three years of 50% tax reduction with effect from 2013. As a result, CSITS DL was entitled a 50% tax reduction for the year ended 31 December 2015 and 2016.

Pursuant to a certificate issued by the Industry and Information Technology Department of Beijing City dated 20 October 2014, Chinasoft International Technology service (Beijing) Ltd. (the “CSITS BJ”) had been designated as a software enterprise up to 31 December 2018. As such, CSITS BJ was entitled to the two years’ exemption from income tax followed by three years of 50% tax reduction with effect from 2014. As a result, CSITS BJ was entitled a 50% tax reduction for the year ended 31 December 2016. (2015: tax exemption).

Pursuant to a certificate issued by the Industry and Information Technology Department of Shanghai City dated 30 August 2014, Chinasoft International Technology service (Shanghai) Ltd. (the “CSITS SH”) had been designated as a software enterprise up to 31 December 2018. As such, CSITS SH was entitled to the two years’ exemption from income tax followed by three years of 50% tax reduction with effect from 2014. As a result, CSITS SH was entitled a 50% tax reduction for the year ended 31 December 2016. (2015: tax exemption).

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

The tax charge for the year can be reconciled to profit before taxation as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit before taxation	524,587	419,994
Tax at PRC Enterprise Income Tax rate of 25% (2015: 25%)	131,147	104,999
Tax effect of share of results of interests in entities measured under equity method	(4,373)	(477)
Tax effect attributable to tax exemption and concessions granted to PRC subsidiaries	(99,281)	(67,650)
Tax effect of expenses not deductible for tax purpose	50,474	37,839
Tax effect of income not taxable for tax purpose	(5,038)	(3,932)
Over-provision in prior years	(12,250)	(9,129)
Tax effect of utilisation of tax losses previously not recognised	(235)	(2,336)
Tax effect of tax losses not recognised	2,865	28,850
Effect of different tax rates of subsidiaries	(963)	(1,154)
Withholding tax (<i>Note</i>)	52,408	–
Income tax expense for the year	114,754	87,010

Note: As detailed in the announcement of the Company dated 2 August 2016, the Group underwent an internal restructuring under which several PRC subsidiaries were transferred within the Group (the “Restructuring”). Under the Restructuring, the PRC subsidiaries distributed dividend amounting to RMB246,887,000 and the Group has realised a capital gain of RMB277,191,000 from the tax perspective. Pursuant to the EIT Law, the dividend received from PRC subsidiaries and capital gain arising from the intra-group disposal of certain PRC subsidiaries by oversea subsidiaries are subject to 10% withholding income tax and the related tax expense of RMB52,408,000 was incurred as a result of the Restructuring and recognised as income tax expense in 2016.

6. PROFIT FOR THE YEAR

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration	11,169	8,411
Other staff costs	4,855,958	3,285,933
Retirement benefits costs (excluding those for directors)	249,243	209,036
Share option expenses	43,980	11,875
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Total staff costs	5,160,350	3,515,255
Less: Staff costs capitalised as development costs	(35,425)	(59,194)
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	5,124,925	3,456,061
	<hr/>	<hr/>
Research and development costs expensed	348,863	198,425
Less: Government grants	(3,594)	(3,107)
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	345,269	195,318
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Depreciation of property, plant and equipment	56,192	50,647
Amortisation of intangible assets	87,979	91,810
Amortisation of prepaid lease payments	893	1,011
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	145,064	143,468
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Less: Amortisation of prepaid lease payments capitalised in construction in progress	(717)	(860)
	<hr/>	<hr/>
	144,347	142,608
	<hr/>	<hr/>
Auditor's remuneration	5,680	5,850
Cost of inventories recognised as an expense	205,631	244,044
Loss on disposal of property, plant and equipment	103	436
Minimum lease payments in respect of buildings	139,927	129,849
Net foreign exchange (gain) loss (included in other gain or loss)	(1,910)	17,189
Interest income from pledged deposits and bank balances	(4,781)	(4,316)
Government grants	(29,055)	(34,881)
Value added tax refund	(1,609)	(1,235)
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7. DIVIDEND

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK1.2 cents (2015: nil) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

8. EARNINGS PER SHARE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	442,081	280,056
Effect of dilutive potential profit attributable to owners of the Company:		
Interest on convertible loan notes	<u>32,792</u>	<u>8,736</u>
Earnings for the purpose of diluted earnings per share	<u>474,873</u>	<u>288,792</u>
Number of shares		
	2016 <i>'000</i>	2015 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,173,087	1,992,602
Effect of dilutive potential ordinary shares:		
Share options	36,650	55,838
Convertible loan notes	<u>190,144</u>	<u>74,659</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,399,881</u>	<u>2,123,099</u>

The computation of diluted earnings per share for the year ended 31 December 2016 did not assume the exercise of the Company's share options granted on 16 December 2015, 11 October 2016 and 17 November 2016 since the exercise prices of those share options were higher than the average market price of shares of the Company.

9. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Trade receivables	1,927,924	618,621
Less: Allowance for doubtful debts	(182,171)	(151,431)
	1,745,753	467,190
Trade receivables from related companies (<i>Note</i>)	–	687,009
	1,745,753	1,154,199
Advances to suppliers	72,727	81,208
Deposits, prepayments and other receivables	304,220	205,408
	2,122,700	1,440,815
Analysed for reporting purposes as:		
Non-current assets	30,000	11,688
Current assets	2,092,700	1,429,127
	2,122,700	1,440,815

Note: The balances principally arose from provision of services by the Group to certain related companies. The balances as at 31 December 2015 included an amount of RMB679,982,000 due from the group of Huawei and its subsidiaries (“Huawei Group”) which was a related party following the establishment of CSITS XA in April 2012. In February 2016, the Company acquired the 40% equity interest of CSITS XA from Huawei and Huawei Group were not related parties of the Group thereafter.

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

	2016	2015
	RMB'000	RMB'000
Within 90 days	1,602,798	749,704
Between 91 – 180 days	94,115	226,564
Between 181 – 365 days	22,878	164,307
Between 1 – 2 years	25,099	9,773
Between 2 – 3 years	863	3,851
	1,745,753	1,154,199

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. 83% (2015: 61%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB138,343,000 (2015: RMB363,592,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the subsequent settlement and the credit quality of these customers had not been deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	88,463	168,857
Between 91 – 180 days	6,941	111,795
Between 181 – 365 days	17,070	69,316
Between 1 – 2 years	25,006	9,773
Between 2 – 3 years	863	3,851
	<hr/>	<hr/>
Total	138,343	363,592
	<hr/> <hr/>	<hr/> <hr/>

The Group has provided full impairment losses for all receivables aged over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for doubtful debts

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year	185,502	132,198
Impairment losses recognised on receivables	44,677	62,060
Amounts recovered during the year	(26,719)	(5)
Amounts written-off as uncollectible	(16,560)	(4,281)
Disposal of subsidiaries	–	(4,769)
Exchange adjustments	17	299
	<hr/>	<hr/>
Balance at end of the year	186,917	185,502
	<hr/> <hr/>	<hr/> <hr/>

10. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	3,832,206	3,451,205
Less: Progress billings	<u>(2,524,271)</u>	<u>(2,022,295)</u>
	<u>1,307,935</u>	<u>1,428,910</u>
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	1,430,206	1,516,660
Amounts due to contract customers for contract work	<u>(122,271)</u>	<u>(87,750)</u>
	<u>1,307,935</u>	<u>1,428,910</u>

There are no advances received from customers for contract work at the end of 2016 and 2015.

11. TRADE AND OTHER PAYABLES

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	552,475	473,040
Deposits received from customers	17,800	33,170
Other payables and accrued charges	<u>633,568</u>	<u>434,162</u>
	<u>1,203,843</u>	<u>940,372</u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 90 days	493,523	366,278
Between 91 – 180 days	20,484	23,706
Between 181 – 365 days	18,791	21,568
Between 1 – 2 years	10,770	24,579
Over 2 years	8,907	36,909
	552,475	473,040

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

12. BORROWINGS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Unsecured bank loans (<i>Note (i)</i>)	925,291	1,248,250
Secured bank loans (<i>Note (ii)</i>)	191,657	312,262
	1,116,948	1,560,512

	2016 RMB'000	2015 RMB'000
Carrying amount repayable:		
Within one year	922,452	1,036,831
More than one years within five years	194,496	211,358
More than five years	–	52,138
	1,116,948	1,300,327
Carrying amount of bank borrowings that are repayable on demand due to breach of loan covenants	–	260,185
Less: Amounts due within one year shown under current liabilities	(922,452)	(1,297,016)
Amounts shown under non-current liabilities	194,496	263,496
	2016 RMB'000	2015 RMB'000
Total borrowings		
At floating interest rates (<i>Note (iii)</i>)	715,283	936,247
At fixed interest rates (<i>Note (iv)</i>)	401,665	624,265
	1,116,948	1,560,512
	2016 RMB'000	2015 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	1,116,948	1,142,208
Denominated in USD	–	418,304

Notes:

- (i) Guaranteed by the Company and certain subsidiaries of the Company.
- (ii) Trade and bill receivables with a net carrying value of approximately RMB30,857,000 (2015: RMB125,662,000) are pledged to secure certain bank loans granted to the Group. The remaining bank loans amount to RMB160,800,000 are secured by the land use rights and buildings (2015: RMB186,600,000 are secured by the land use rights and construction in progress) of the Group.
- (iii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The weighted average interest rate for the year is 5.37% (2015: 5.18%) per annum. Interest on USD borrowings are mainly charged at LIBOR plus 2.95% for 2015.
- (iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 4.35% to 6.31% (2015: 4.6% to 7%) per annum.

In respect of bank borrowings with a carrying amount of RMB260,185,000 as at 31 December 2015, the banks have the following requirements: (i) any fund or affiliate of Hony Capital Management Limited (“Hony Capital Parties”) must legally and beneficially, directly or indirectly, own at least 12% of the issued ordinary shares of the Company that are traded on the Stock Exchange, and Hony Capital Parties remain, legally and beneficially, directly or indirectly, the single largest shareholder of the Company; and (ii) the Company must adhere to certain financial covenants.

With reference to the announcement of the Company dated 23 April 2015 that the Company was notified that Hony Capital Management Limited (“Hony Capital Parties”) had disposed of an aggregate of 335,076,453 shares (“Disposal of Shares”, together with the Breach of Financial Covenants, collectively referred to as the “Non-Compliances”) of the Company, which represents approximately 17.29% of the total number of shares issued on 23 April 2015. Upon the Disposal of Shares, Hony Capital Parties ceased to hold any of the Company’s Shares. The Disposal of Shares is not consistent with the requirements of the banks. Therefore, the borrowings have been classified as current liabilities as at 31 December 2015.

On 17 February 2016, the Company made full repayment of the total outstanding bank borrowings relating the Non-Compliances amounting to RMB260,185,000 and obtained all necessary waivers from the banks regarding the Non-Compliances.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the Group’s businesses achieved high growths. The revenue, service revenue, profit attributable to owners of the Company and basic EPS increased by 32.3%, 36.1%, 57.9% and 44.8% YoY respectively.

	2016	2015	% Increase (decrease) over the same period last year
	<i>RMB’000</i>	<i>RMB’000</i>	
Turnover	6,783,367	5,129,111	32.3%
Service revenue*	6,573,770	4,831,722	36.1%
Profit for the year attributable to the owners of the Company	442,081	280,056	57.9%
Basic earnings per share (cents)	20.34	14.05	44.8%

KEY OPERATING DATA

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	% Increase (decrease) over the same period last year
Turnover	6,783,367	5,129,111	32.3%
Service revenue*	6,573,770	4,831,722	36.1%
Cost of sales and services	<u>(4,767,529)</u>	<u>(3,605,903)</u>	<u>32.2%</u>
Gross profit	2,015,838	1,523,208	32.3%
Other income	41,908	46,259	(9.4%)
Other gains or losses	1,807	(17,625)	N/A
Selling and distribution costs	(219,022)	(178,581)	22.6%
Administrative expenses	(806,614)	(627,264)	28.6%
Research and development costs	(345,269)	(195,318)	76.8%
Allowance for doubtful debts	(17,958)	(62,055)	(71.1%)
Other expenses	(88,012)	(91,961)	(4.3%)
Share of results of investments accounted for using the equity method	17,492	1,907	817.3%
Gain on disposal of subsidiaries	–	111,724	N/A
Fair value change on derivative financial instruments	–	(1,074)	N/A
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	20,152	3,283	513.8%
Finance costs	<u>(95,735)</u>	<u>(92,509)</u>	<u>3.5%</u>
Profit before taxation	524,587	419,994	24.9%
Income tax expense	<u>(114,754)</u>	<u>(87,010)</u>	<u>31.9%</u>
Profit for the year	<u>409,833</u>	<u>332,984</u>	<u>23.1%</u>
Profit for the year attributable to owners of the Company	442,081	280,056	57.9%
Adjusted profit attributable to owners of the Company	493,054	251,283	96.2%
Basic earnings per share (cents)	<u>20.34</u>	<u>14.05</u>	<u>44.8%</u>

PROFITABILITY

In 2016, the adjusted profit attributable to owners of the Company (excluding non-operating and one-time expense) was RMB493.054 million (2015: RMB251.283 million), representing a YoY growth of 96.2%. Below is the reconciliation from the profit for the year attributable to the owners of the Company to the adjusted profit for the year attributable to the owners of the Company, after deducting non-operating or one-time expenses:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	Growth Rate
Profit for the year attributable to the owners of the Company	442,081	280,056	57.9%
Gain on disposal of subsidiaries	–	(111,724)	N/A
Tax on the gain on disposal of subsidiaries	–	17,195	N/A
Tax arose from group restructure	52,408	–	N/A
(Reversal of allowance) allowance for doubtful debts for other receivables relating to disposal of available-for-sale investments*	(26,568)	25,944	N/A
Share option expenses	45,285	13,637	232.1%
Fair value change on derivative financial instruments	–	1,074	N/A
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	(20,152)	(3,283)	513.8%
Exchange loss arose from loan in USD	–	28,384	N/A
Adjusted profit for the year attributable to the owners of the Company	493,054	251,283	96.2%

* After deducting the impact of non-controlling interests.

GENERAL OVERVIEW

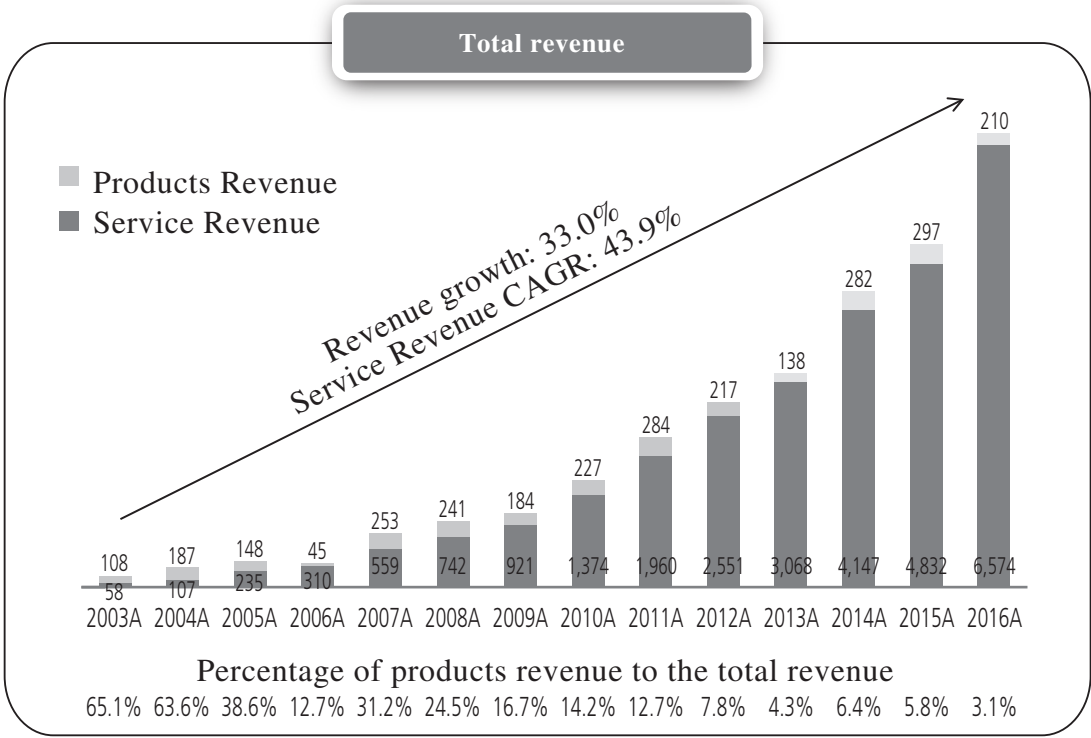
The revenue, service revenue, and results of the Group's different business segments in 2016 are as follow:

	Turnover			Service revenue			Results		
	2016 RMB'000	2015 RMB'000	Growth rate	2016 RMB'000	2015 RMB'000	Growth rate	2016 RMB'000	2015 RMB'000	Growth rate
Technical and professional service Group	5,481,921	3,780,692	45.0%	5,413,546	3,578,708	51.3%	533,611	300,814	77.4%
Internet ITS Group	1,301,446	1,348,419	(3.5%)	1,160,224	1,253,014	(7.4%)	115,656	128,574	(10.0%)
Total	<u>6,783,367</u>	<u>5,129,111</u>	<u>32.3%</u>	<u>6,573,770</u>	<u>4,831,722</u>	<u>36.1%</u>	<u>649,267</u>	<u>429,388</u>	<u>51.2%</u>

1. TPG achieved a YoY revenue growth of 45%, mainly because the revenue from Huawei increased significantly. TPG achieved a YoY results growth of 77.4%, higher than its revenue (45.0%) and service revenue (51.3%) growth because during the reporting period, TPG continued to focus on large industry clients and its offline IT businesses. The selling and administrative expenses required to increase large industry clients decreased due to higher efficiencies, resulting in a steady increase in margins.
2. The IIG realized a YoY revenue decrease of 3.5% and results decrease of 10.0%. The main reason is because at the end of 2015, the Group sold part of its ETC business, and the financials are no longer consolidated. Furthermore, in the middle of 2016, the Group underwent an internal restructure and moved parts of the IIG business to TPG business. Lastly, the Group also increased its research and development expenses. The combination of these three structural factors is the reason for the decrease of IIG.

The Group believes that its revenue and margins will continue to increase steadily as cloud, big data, and other high margin businesses increase.

Since listing on the GEM board in 2003, the Group has maintained a high revenue and service revenue growths, recording a CAGR of 33.0% and 43.9% respectively from 2003 to 2016. The details are as follow:



CUSTOMERS

The Group’s customers include large enterprises headquartered in Great China, Europe, United States, and Japan. In the China market, the Group has acquired a larger market share in finance and banking, telecommunication, Internet and high-technology industry. In 2016, the service revenue from the top five and ten customers are 66.1% and 71.0%.

In 2016, the Group has 1,465 active customers and 79 large customers (contributed to more than RMB6 million of service revenue within the past 12 months).

MARKET

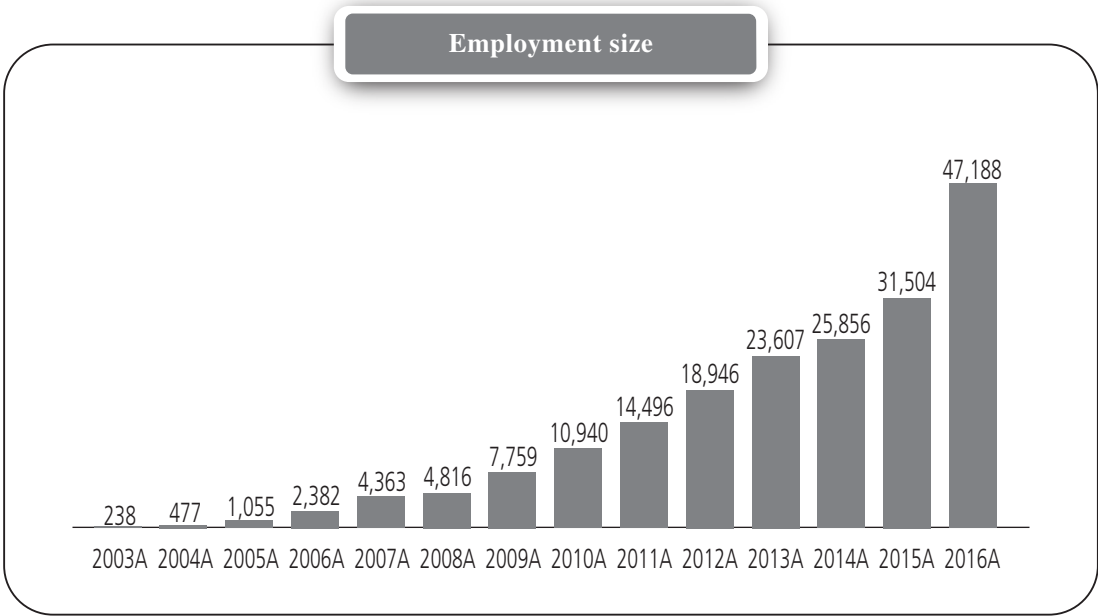
During the reporting period, the Group’s businesses were concentrated in the Greater China region, as the Group believes that the Greater China region holds great market potential and growth opportunities for the Group. The Group provides IT services to customers in 32 countries and a group for Fortune 500 companies. In the process the Group has accumulated large global IT servicing experiences. In the future, the Group will work closer with large clients in large industries, leveraging on its cloud-based digital transformation services, and achieve a global layout. The Group will speed up its global expansion plans and improve the delivery centers in United States, Hungary, and Malaysia as well as build more delivery centers in Russia, India, Mexico, and more.

HUMAN RESOURCES

As of the end of 2016, the Group has a total of 47,188 employees, representing a YoY increase of 49.8% (2015: 31,504). During the reporting period, the annual average employee size was 39,346, representing a YoY increase of 37.2% (2015: 28,680), which is in line with the Group’s service revenue increase of 36.1%.

As of the end of 2016, the Group employs 45,188 technical staffs, accounting for 95.8% of the total employees. Of which, 17,918 technical staffs are project managers and consultants (core talents), accounting for 39.7% of the total technical staffs.

The Group’s business continues to boom. The rapid growth in employment size since listing on the Growth Enterprise Market in 2003 is as follows:



OPERATING RESULTS

The Group's consolidated income statements in 2015 and 2016 are as follow:

	2016 RMB'000	Percentage of turnover	Percentage of service revenue	2015 RMB'000	Percentage of turnover	Percentage of service revenue
Revenue	6,783,367			5,129,111		
Service Revenue	6,573,770			4,831,722		
Cost of sales and services	<u>(4,767,529)</u>	<u>(70.3%)</u>	<u>(72.5%)</u>	<u>(3,605,903)</u>	<u>(70.3%)</u>	<u>(74.6%)</u>
Gross profit	2,015,838	29.7%	30.7%	1,523,208	29.7%	31.5%
Other income	41,908	0.6%	0.6%	46,259	0.9%	1.0%
Other gains or losses	1,807	0.03%	0.03%	(17,625)	(0.3%)	(0.4%)
Selling and distribution costs	(219,022)	(3.2%)	(3.3%)	(178,581)	(3.5%)	(3.7%)
Administrative expenses	(806,614)	(11.9%)	(12.3%)	(627,264)	(12.2%)	(13.0%)
Research and development costs	(345,269)	(5.1%)	(5.3%)	(195,318)	(3.8%)	(4.0%)
Allowance for doubtful debts	(17,958)	(0.3%)	(0.3%)	(62,055)	(1.2%)	(1.3%)
Other expenses	(88,012)	(1.3%)	(1.3%)	(91,961)	(1.8%)	(1.9%)
Finance costs	(95,735)	(1.4%)	(1.5%)	(92,509)	(1.8%)	(1.9%)
Share of results of investments accounted for using the equity method	17,492	0.3%	0.3%	1,907	0.04%	0.04%
Gain on disposal of subsidiaries	-	-	-	111,724	2.2%	2.3%
Fair value change on derivative financial instruments	-	-	-	(1,074)	(0.02%)	(0.02%)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a subsidiary	<u>20,152</u>	<u>0.3%</u>	<u>0.3%</u>	<u>3,283</u>	<u>0.1%</u>	<u>0.1%</u>
Profit before taxation	524,587	7.7%	8.0%	419,994	8.2%	8.7%
Income tax expense	<u>(114,754)</u>	<u>(1.7%)</u>	<u>(1.7%)</u>	<u>(87,010)</u>	<u>(1.7%)</u>	<u>(1.8%)</u>
Profit for the year	409,833	6.0%	6.2%	332,984	6.5%	6.9%
Profit for the year attributable to owners of the Company	<u><u>442,081</u></u>	<u><u>6.5%</u></u>	<u><u>6.7%</u></u>	<u><u>280,056</u></u>	<u><u>5.5%</u></u>	<u><u>5.8%</u></u>

REVENUE

In 2016, the Group's revenue was RMB6,783.367 million (2015: RMB5,129.111 million), representing a YoY growth of 32.3%. The Group's service revenue was RMB6,573.770 million (2015: RMB4,831.722 million), representing a YoY growth of 36.1%. The growth mainly came from increasing business volume from existing large customers.

In 2016, TPG and IIG accounted for 80.8% (2015: 73.7%) and 19.2% (2015: 26.3%) of the Group's total revenue.

	2016	Weight	2015	Weight
	<i>RMB'000</i>		<i>RMB'000</i>	
TPG	5,481,921	80.8%	3,780,692	73.7%
IIG	1,301,446	19.2%	1,348,419	26.3%
Total	6,783,367	100%	5,129,111	100%

In 2016, TPG and IIG accounted for 82.4% (2015: 74.1%) and 17.6% (2015: 25.9%) of the Group's service revenue.

	2016	Weight	2015	Weight
	<i>RMB'000</i>		<i>RMB'000</i>	
TPG	5,413,546	82.4%	3,578,708	74.1%
IIG	1,160,224	17.6%	1,253,014	25.9%
Total	6,573,770	100%	4,831,722	100%

COST OF SALES AND SERVICES

In 2016, the Group's cost of sales and services accounted for 70.3% (2015: 70.3%) of the revenue, the same as that of last year. The Group's cost of sales and services were RMB4,767.529 million (2015: 3,605.903 million), representing a YoY growth of 32.2%.

GROSS PROFIT

In 2016, the Group's gross profit was RMB2,015.838 million (2015: 1,523.208 million), representing a YoY growth of 32.3%. The Group's gross margin was 29.7%, the same as that of last year (2015: 29.7%).

In the future, the Group will use the following measures to improve gross margins:

1. Increase the Group's overall technological capabilities and value added IT services to have a stronger price bargaining power with clients.
2. Increase the proportion of oversea businesses and continue its global layout. The oversea businesses are higher margin business compared to that in China.
3. Increase cloud, big data, and other emerging services. The gross margins of these emerging services are on higher than that of the traditional IT outsourcing.
4. Increase the number of fixed priced contracts. Fixed price contracts are typically higher margin businesses than that of the outsourcing businesses
5. Increase the number of IP solution businesses. Contracts with the Group's IP are quicker to scale and have higher gross margins.

OTHER INCOME

In 2016, the Group's other income was RMB41.908 million (2015: RMB46.259 million), representing a YoY decrease of 9.4%. The decrease was mainly due to the drop in the government subsidy during the reporting year.

OTHER GAINS OR LOSSES

In 2016, the Group's other gains were RMB1.807 million (2015: other losses were RMB17.625 million). This was mainly due to the exchange loss caused by the significant fluctuations in the exchange rate between USD and RMB for the syndicated loan. The Group paid back the syndicated loan in early 2016, so there are no significant losses due to foreign exchange during the current year.

OPERATING EXPENSES

In 2016, the Group's selling and distribution expenses were RMB219.022 million, representing a YoY increase of 22.6% (2015: RMB178.581 million). The Group's selling and distribution expenses accounted for 3.2% (2015: 3.5%) of the revenue, representing a YoY decrease of 0.3%. The Group's selling and distribution expenses accounted for 3.3% (2015: 3.7%) of the service revenue, representing a YoY decrease of 0.4%. The proportion of selling and distribution expenses to revenue and service revenue decreased because during the reporting period the proportion of TPG businesses, which is focused in large customers and industries, to IIG businesses increased.

In 2016, the Group's administrative expenses were RMB806.614 million (2015: RMB627.264 million), representing a YoY increase of 28.6%. The Group's administrative expenses accounted for 11.9% (2015: 12.2%) of the revenue, representing a YoY decrease of 0.3%. The Group's administrative expenses accounted for 12.3% (2015: 13.0%) of the service revenue, representing a YoY decrease of 0.7%. The decrease of the administrative expense represents the Group's improved administrative efficiency.

In 2016, the Group's research and development costs were RMB345.269 million (2015: RMB195.318 million), representing a YoY increase of 76.8%. The Group's research and development costs accounted for 5.1% (2015: 3.8%) of the revenue, representing a YoY increase 1.3%. The main cause of the increase is because the Group invested more into the research and development of cloud, big data, and other emerging servicing capabilities.

FINANCE COSTS AND INCOME TAX

In 2016, the Group's finance costs accounted for 1.4% (2015: 1.8%) of the revenue, representing a YoY decrease of 0.4%. The Group's finance costs were RMB95.735 million, representing a YoY increase of 3.5% (2015: RMB92.509 million).

In 2016, the Group's income tax was RMB114.754 million (2015: RMB87.010 million), representing a YoY increase of 31.9%. The reason for the increase of tax is because during the reporting period, the Group underwent a business restructure. The tax for the change of the equity of the principal legal entity was RMB52.408 million, compared to the tax for the disposal of subsidiaries in the previous year of RMB17.195 million. If taken out the one-time effect of these line items, the income tax realized a YoY decrease of 10.7%. The main reason for the decrease is because during the reporting period, the principal operating entity of the Group enjoy the preferential tax rate for key software enterprises.

OTHER NON-CASH EXPENSES

In 2016, the Group's amortization of intangible assets and trademark usage right accounted for 1.3% (2015: 1.8%) of the revenue, representing a YoY decrease of 0.5%. The Group's amortization of intangible assets and trademark usage right were RMB88.012 million (2015: RMB91.961 million), representing a YoY decrease of 4.3%.

In 2016, the Group's allowance for doubtful debts was RMB17.958 million (2015: RMB62.055 million), representing a YoY decrease of 71.1%. This decrease is because in 2015 the Group prepared provisions for bad debts on receivables from disposal of available-for-sale investments, and during the reporting period, the amount was received, resulting in the differences from 2015 to 2016.

In 2016, the Group's share option expenses accounted for 0.7% (2015: 0.3%) of the revenue, representing a YoY increase of 0.4%. The Group's share option expenses were RMB45.285 million (2015: RMB13.637 million), representing a YoY increase of 232.1%. The main reason for the increase is because during the reporting period, the Group granted 130 million shares options to employees.

PROFIT OF THE YEAR AND EARNINGS PER SHARE

In 2016, the Group's profit for the year was RMB409.833 million, representing a YoY growth of 23.1% (2015: RMB332.984 million).

Excluding the loss for the year attributable to the non-controlling interests in 2016, the Group's profit for the year attributable to the owners of the Company was RMB442.081 million (2015: RMB280.056 million), representing a YoY growth of 57.9%.

In 2016, the Group's basic earnings per share (EPS), based on the profit for the year attributable to the owners of the Company, was RMB 20.34 cents (2015: RMB14.05 cents), representing a YoY growth of 44.8%.

FUNDRAISING ACTIVITIES

On 3 February 2016, the Group entered into the Subscription Agreement with Huarong International Asset Management Growth Fund pursuant to which the Company has conditionally agreed to issue and Huarong has conditionally agreed to subscribe for The total amount of the principal amount is US\$70,000,000 (equivalent to approximately RMB458.649 million) of the Convertible Notes due in 2019. The Convertible Notes will be issued in two installments, namely the First Tranche Convertible Notes and the Second Tranche Convertible Notes. The total amount of the First Tranche Convertible Notes is US\$30,000,000 (equivalent to approximately RMB196.564 million) and the Second Tranche Convertible Notes total principal amount of US\$40,000,000 (equivalent to approximately RMB262.085 million) have been issued in 15 February 2016 and 10 March 2016. The Group will use the proceeds for general working capital purposes.

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 2016 to 31 December 2016, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2016 (the "2015 AGM") (deviated from code provision E.1.2 of the CG Code) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2015 AGM; (ii) the roles of chairman and chief executive officer were performed by the same individual (deviated from code provision A.2.1 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 2016.

COMPETING INTERESTS

As at 31 December 2016, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

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

Neither the Company nor any of its subsidiaries purchases, sold or redeemed any listed securities of the Company during the year under review.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2016.

AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference on 31 December 2015 to comply with the requirements in the CG Code. During the year ended 31 December 2016, the audit committee comprised of three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met at least on a semi-yearly basis during the year ended 31 December 2016.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2016 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. The audit committee reports to the Board and is delegated by the Board to assess matters related to the financial statements.

FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of HK\$0.012 per ordinary share for the year ended 31 December 2016. The proposed dividend payments are subject to approval by the shareholders of the Company at the annual general meeting to be held on Thursday, 18 May 2017 at 4:00 p.m.. Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid on Tuesday, 13 June 2017 to shareholders whose names shall appear on the register of members of the Company on 2 June 2017.

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 Monday, 15 May 2017 to Thursday, 18 May 2017, 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 Friday, 12 May 2017.
- (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, 31 May 2017 to Wednesday, 2 June 2017, 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 Friday, 2 June 2017.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is proposed to hold on Thursday, 18 May 2017 at 4:00 p.m.. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (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, 27 March 2017

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, two non-executive Director, namely Dr. Zhang Yaqin and Mr. Samuel Thomas Goodner, and three independent non-executive Directors, namely Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Dr. Lai Guanrong.

** For identification purposes only*