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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)

**SUPPLEMENTAL ANNOUNCEMENT
UPDATE ON THE ANNUAL RESULTS FOR
THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the announcement of Chinasoft International Limited (the “Company”) dated 25 March 2020 relating to, among others, the unaudited annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 (the “2019 Results Announcement”). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the 2019 Results Announcement.

As disclosed in the 2019 Results Announcement, 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 disclosed in the 2019 Results Announcement have not been agreed with the Group’s auditor 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.

AUDITOR'S AGREEMENT ON THE 2019 ANNUAL RESULTS

The Board of the Company is pleased to announced that on 27 April 2020, the Company has obtained the agreement from its auditor, Messrs. Deloitte Touche Tohmatsu, on the annual results of the Group for the year ended 31 December 2019 (the “2019 Annual Results”) (including the financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto) as set out in this supplemental announcement. The 2019 Annual Results are the same as the unaudited consolidated annual results of the Group contained in the 2019 Results Announcement, except for refining the presentation in the 2019 Annual Results that include two additional financial statement line items as denoted below and updating the events after the reporting period. The audited 2019 Annual Results were reviewed by the Audit Committee and were approved by the Board, details of which are set out below.

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	3	12,041,895	10,585,013
Cost of sales and services		<u>(8,458,802)</u>	<u>(7,340,356)</u>
Gross profit		3,583,093	3,244,657
Other income		177,811	64,078
Loss from derecognition of financial assets measured at amortised cost		(4,544)	(7,139)
Impairment losses, under expected credit loss model, net of reversal		(74,812)	(35,200)
Impairment loss on goodwill**		(35,760)	–
Other gains or losses**		849	(5,669)
Selling and distribution costs		(617,554)	(495,524)
Administrative expenses		(1,195,874)	(1,091,148)
Research and development costs		(808,949)	(739,434)
Other expenses		(58,929)	(68,402)
Finance costs		(166,045)	(117,987)
Share of results of investments accounted for using the equity method		<u>(328)</u>	<u>12,222</u>
Profit before taxation		798,958	760,454
Income tax expense	4	<u>(42,272)</u>	<u>(44,283)</u>
Profit for the year		<u>756,686</u>	<u>716,171</u>

** The financial statement line items were presented together as “Other gains or losses” in the 2019 Results Announcement.

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

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

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

	<i>NOTES</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		10,287	11,062
Convertible loan notes		727,672	719,941
Lease liabilities		123,734	–
Borrowings		200,000	–
		<u>1,061,693</u>	<u>731,003</u>
		<u>6,533,940</u>	<u>6,031,523</u>
Capital and reserves			
Share capital		116,325	112,994
Share premium***		3,145,241	2,982,319
Treasury shares		(470,752)	(76,451)
Reserves***		3,676,796	2,948,128
		<u>6,467,610</u>	<u>5,966,990</u>
Equity attributable to owners of the Company		<u>66,330</u>	<u>64,533</u>
Non-controlling interests			
		<u>6,533,940</u>	<u>6,031,523</u>

*** *The financial statement line items were presented together as “Share premium and other reserves” in the 2019 Results Announcement.*

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 interpretations.

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>	
	2019	2018	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
TPG	10,458,258	9,174,855	891,035	795,281
IIG	1,583,637	1,410,158	97,645	133,064
	<u>12,041,895</u>	<u>10,585,013</u>	<u>988,680</u>	<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 on 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 resource allocation and assessment of segment performance. Therefore, only segment revenue and segment results are presented.

4. INCOME TAX EXPENSE

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Income Tax expense	<u>42,272</u>	<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

	2019	2018
	<i>RMB'000</i>	<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	<u>48,121</u>	<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

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

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>2,978,781</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	2,381,748	1,681,131
Between 91-180 days	190,179	246,074
Between 181-365 days	296,889	168,267
Between 1-2 years	<u>109,965</u>	<u>44,281</u>
	<u>2,978,781</u>	<u>2,139,753</u>

8. TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	<u>423,757</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	341,337	564,584
Between 91-180 days	2,252	5,620
Between 181-365 days	7,591	8,113
Between 1-2 years	33,003	35,431
Over 2 years	<u>39,574</u>	<u>25,930</u>
	<u>423,757</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 and March 2020, the Company raised bank loans of HK\$100 million and HK\$1,700 million, respectively, with a repayment period of three years.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this supplemental announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year as approved by the Board of the Directors on 27 April 2020. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this supplemental announcement.

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

Hong Kong, 27 April 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 Directors, 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*