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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 354)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

HIGHLIGHTS

Results for the first half of 2023

Income statement highlights	For the six months ended 30 June		% Change
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000	
Revenue	8,450,060	10,025,275	(15.7%)
Service revenue	8,295,751	9,820,494	(15.5%)
Profit for the period	350,687	570,880	(38.6%)
Profit attributable to Owners of the Company	351,028	571,554	(38.6%)
Basic EPS (RMB cents)	12.44	19.62	(36.6%)

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023.
- No closure for the Register of Members of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY OPERATING DATA

In the first half of 2023, the Group's revenue, service revenue, profit for the period, profit attributable to owners of the company, and basic EPS decreased by 15.7%, 15.5%, 38.6%, 38.6%, and 36.6% YoY respectively.

	Six Months Ended 30 June		% Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	8,450,060	10,025,275	(15.7%)
Service revenue	8,295,751	9,820,494	(15.5%)
Profit for the period	350,687	570,880	(38.6%)
Profit attributable to Owners of the Company	351,028	571,554	(38.6%)
Basic EPS (RMB cents)	12.44	19.62	(36.6%)

The Key operating date (unaudited) for the six months ended 30 June 2023 are as follow:

	Six Months Ended 30 June		% Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	8,450,060	10,025,275	(15.7%)
Service revenue	8,295,751	9,820,494	(15.5%)
Cost of sales and services	(6,448,925)	(7,543,550)	(14.5%)
Gross profit	2,001,135	2,481,725	(19.4%)
Other income	143,660	188,917	(24.0%)
Other gains or losses	(5,663)	20,911	(127.1%)
Selling and distribution costs	(420,993)	(511,289)	(17.7%)
Other expenses	(38,083)	(27,473)	38.6%
Administrative expenses	(1,210,380)	(1,445,384)	(16.3%)
Finance costs	(83,087)	(51,868)	60.2%
Impairment losses under expected credit loss model, net of reversal	(14,800)	(12,995)	13.9%
Share of results of investments accounted for using the equity method	(28,598)	(30,627)	(6.6%)
Loss from derecognition of financial assets measured at amortised cost	(818)	(1,464)	(44.1%)
Profit before taxation	342,373	610,453	(43.9%)
Income tax expense	8,314	(39,573)	(121.0%)
Profit for the period	350,687	570,880	(38.6%)

GENERAL OVERVIEW

In the first half of 2023, the global landscape remained intricate and challenging, characterized by sluggish worldwide economic recovery. Despite these circumstances, the Group maintained its strategic resolve, diligently pursued the annual operational strategic objectives, enhanced collaborative partnerships with clients, proactively embraced opportunities presented by AIGC (Artificial Intelligence Generated Content), and the opportunities of localization. These endeavors led to a positive trajectory in the Group's performance, evident in a steady sequential rebound of net profits. For the fifth consecutive year, the Group secured a position within Gartner's global top 100 IT service providers, ascending to the 73rd position. This accomplishment eloquently underscores the market standing and resilient growth of China's premier IT service enterprise.

During the reporting period, the Group established the Chinasoft International AIGC Research Institute, anchored by the Jointforce Platform, and introduced the "Large Model Ecosystem Development Strategy." In addition, the Group introduced the JointPilot (Lingxi) Artificial Intelligence Application Platform. JointPilot provides foundational service capabilities that enable clients to transition their IT assets towards a PBC approach. This optimization of IT investments raises the level of IT asset reusability, propelling the transformation of conventional industry solutions into AI-enhanced upgrades. During the reporting period, the Group entered into a cooperative agreement with Huawei Cloud on the Pangu Large Model project. The Group also became one of the pioneer ecological partners for Baidu's "ERNIE Bot" and the Wenxin Qianfan Large Model Platform. These partnerships are dedicated to realizing the practical application and scalable implementation of AI technology, thus collectively reshaping the value proposition of the industry.

During the reporting period, the Group leveraged the 1+1 approach (KaihongOS + Super Device Management Platform) to undertake a comprehensive industry-based endeavor. This initiative focused on constructing an independent and controllable Smart Internet of Things (IoT) foundation, and an end-edge-cloud-network-integrated software and hardware solution. By strategically utilizing Shenzhen Kaihong Digital Industry Development Co., Ltd. ("Shen Kaihong") as the vanguard, the Intelligent IoT Division achieved all-encompassing penetration into pivotal sectors such as Smart Water Management, Smart Cities, Smart Education, and Smart Transportation. This concerted effort aimed to jointly explore markets defined as "national strategic assets" and "city cutting-edge innovations," ensuring close alignment with client requisites and deep-rooted contextual implementations. The result is the realization of the shortest path to achieving a closed-loop of customer value within specific scenarios.

During the reporting period, the Group established a business model centered around "Industry Consultation-Driven, Wide-ranging ERP Implementation." This initiative facilitated the creation of an end-to-end consultancy and implementation service capability. The company embodied the "Platform + Service" framework for comprehensive ERP services, aggregating products and channel partners. With a specific focus on six major industries: Petroleum and Chemical, Energy and Power, Aerospace and Defense, Automotive, Equipment Manufacturing, and Transportation & Logistics, the Group provided an integrated service approach to propel the digital transformation of client enterprises. Furthermore, the Group deepened collaborations with Huawei, Yonyou and Kingdee, while also forging a strategic partnership with Inspur. These partnerships were directed at establishing ERP implementation capabilities for medium and large-scale clients.

During the reporting period, the Group seized the opportunities within Huawei Cloud's emerging ecosystem, transitioning from a Huawei Cloud general distributor and solution provider to becoming a comprehensive partner across all sectors of Huawei Cloud's ecosystem. As part of the GoCloud ecosystem, the Group became one of the first service partners certified through Huawei Cloud's CTSP program. In the two prominent segments of cloud professional services – cloud migration and cloud development services – the Group retained its leadership position, consistently maintaining the forefront. Furthermore, the Group proactively ventured into new avenues for cloud empowerment, driving collaborative solutions and accelerating integrated product matrices that span various digital transformation scenarios such as intelligent finance, intelligent auditing, smart energy, smart transportation, smart cities, smart campuses, smart healthcare, and intelligent manufacturing. With the collective force of this ecosystem, the Group is fully committed to empowering a myriad of industries, contributing to enterprise digital transformation and propelling China's digital economy to a leading position globally.

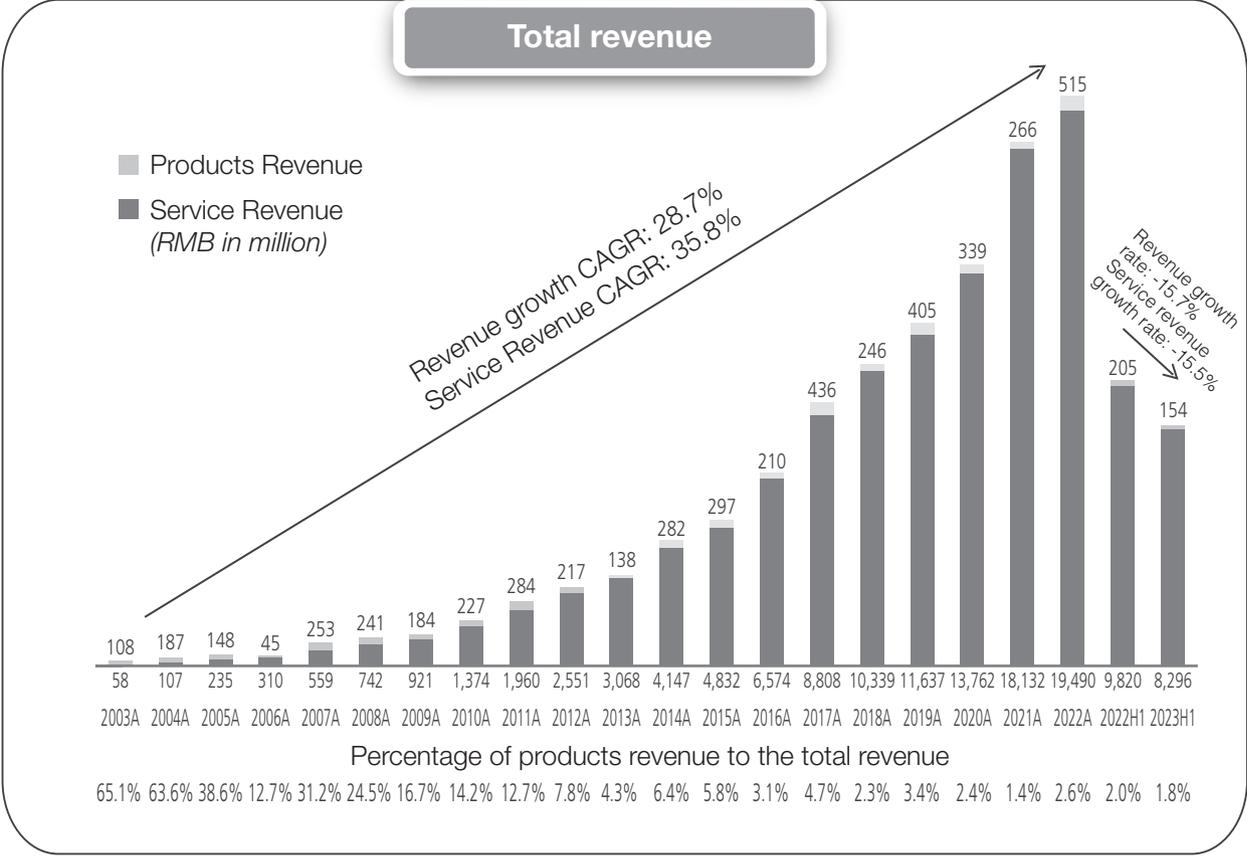
During the reporting period, the Group maintained a steadfast commitment to solidifying its capabilities within the automotive sector, resulting in substantial growth in high-margin levels for the automotive business. Notably represented by the "Automotive Software ODC," the Group continued its pursuit of lean management and implementation services, fostering ongoing collaborations and expanding engagements with key players in the automotive industry chain, including First Automotive Works (FAW), China Automotive Innovation Corporation (CAIC), China Metallurgical Group Corporation (MCC), CATL (Contemporary Amperex Technology), Changan Automobile, Great Wall Motor, Geely Ji-Ke, Lotus, and others. This collaborative approach aimed to deepen and broaden the cooperative framework. By harnessing its expertise across three core areas - management consulting, IT equipment, and scaled outsourcing - the Group effectively contributed to the successful digital transformation of its automotive clients. This concerted effort enabled the Group to bolster its position as a trusted partner in facilitating the digital evolution of the automotive industry.

During the reporting period, the Group achieved significant milestones in the domain of enterprise-level server operating systems through the development of "PanShi," an operating system built upon the openEuler community edition. This accomplishment was marked by official certifications obtained through the openEuler open-source community and compatibility validations with the Kunpeng full-stack solution. Additionally, the Group secured the winning bid for the China Mobile Operating System Migration Project, showcasing consistent breakthroughs in the realm of domestic digital innovation. In line with the currents of the AIGC trend, and propelled by the potency of AI, the Group embarked on reshaping and constructing an AI-powered software factory. This endeavor encompassed the complete spectrum from research and development toolchains, development toolkits, capability repositories, and development scaffolds. The continuous accumulation of reusable technological frameworks led to the establishment of a platform within the software factory domain. Leveraging a multitude of AI assistants, the Group has effectively facilitated product research and development as well as project delivery within the software factory, empowering enterprises in their digital transformation journey.

During the reporting period, the Group's financial business experienced robust growth, marked by sustained cooperation with prominent clients including state-owned banks, joint-stock commercial banks, city commercial banks, and major insurance companies. Furthermore, the Group achieved significant breakthroughs in vertical sectors such as securities, futures, wealth management, and financial infrastructure. In the telecommunications sector, the Group continued to deepen its partnerships with China Mobile and China Telecom, advancing steadily with main equipment and broad electronic equipment clients. In the energy sector, the Group further penetrated state-owned enterprises, expanding both the depth and breadth of collaborations with multiple state-owned entities. Building upon its foundation of working closely with clients such as PetroChina, Sinopec, China Power Construction, and China National Nuclear Corporation, the company successfully ventured into partnerships with clients such as CNOOC and SINOCEM GROUP. In the field of internet and high-tech business, the Group maintained its focus on the internet industry, maintaining a leading position with key clients such as Tencent, Alibaba, Baidu, JD.com, and ByteDance. Simultaneously, the Group continued to expand its footprint into emerging high-tech sectors, deepening partnerships with pivotal clients like Harbin Institute of Technology, HCSEC Technologies, GAC AION, and Smiths Detection.

Looking ahead to the second half of the year, the Group will continue to maintain steadfast confidence, resolutely aligning with strategic planning, anchoring pivotal strategic client capabilities, and collectively crafting innovative information technology solutions for foundational industries in China. Upholding the commitment to breakthrough innovation and grounded progress, the Group will leverage its foundational technology, centering on core business sectors, fostering, and consolidating end-to-end service capabilities. This approach will enable the Group to further penetrate industries, reaching a broader spectrum of the digital transformation market. The Group remains steadfast in its pursuit of the goal to become a global leader in technology-driven IT services, marked by its unique prominence in the realm of technology innovation.

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 28.7% and 35.8% from 2003-2022. In the first half of 2023, the revenue and service revenue decreased by of 15.7% and 15.5% YoY. The details are as follow:



Customer

The Group’s customers are located all over the world, in addition to Greater China, it also includes Asia Pacific, North America, Europe, Latin America and other regions. In the China market, especially in mainstream industries such as finance, Internet, communications, high-tech, and government sectors, the Group maintains a large market share. In the first half of 2023, the service revenue from the top five and top ten customers accounted for 63.2% and 72.3% of the Group’s total service revenue.

As of 30 June, 2023, the Group has 171 large customers (customers that contributed to more than RMB6 million of service revenue within the past 12 months).

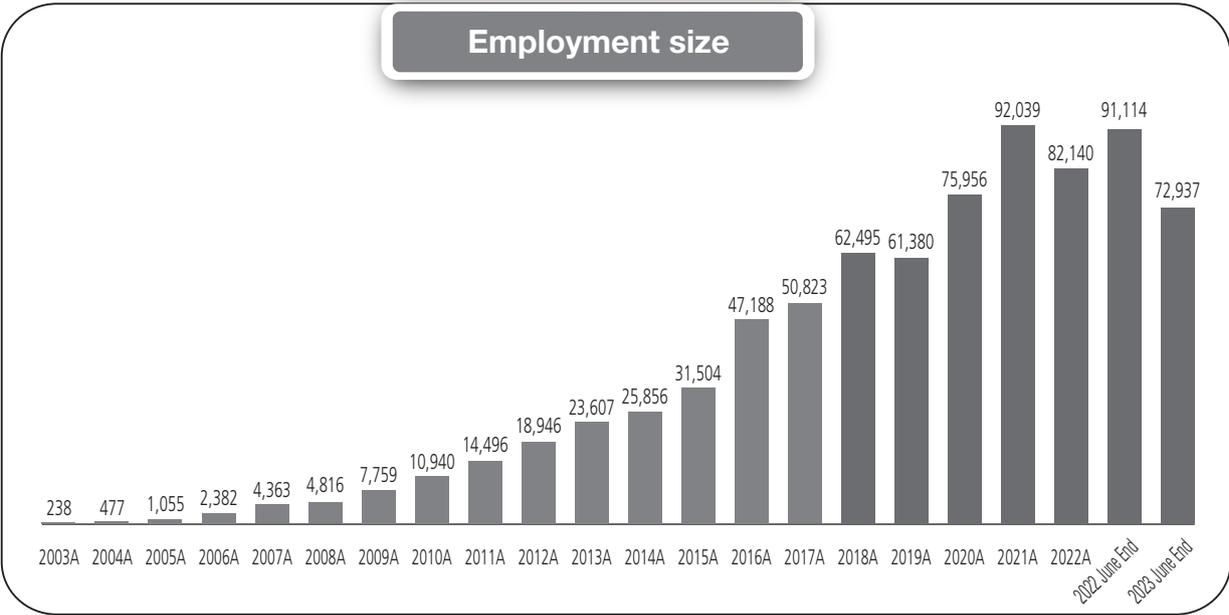
Market

During the reporting period, the Group capitalized on digital opportunities arising from the "Belt and Road Initiative" while actively exporting comprehensive "Digital China" solutions. Having established longstanding partnerships with Fortune 500 clients including Huawei, Honor, Tencent, Alibaba, Ping An, China Mobile, China Telecom, a global financial institution, the Group has extended its services to clients in 47 countries worldwide, amassing a wealth of experience in serving international customers. The Group continues its overseas expansion strategy, building upon existing global strategic centers in China, the United States, Japan, India, Singapore, and Malaysia. This expansion involves cloud-powered digital transformation services, reinforcing its global full-service foundation. By intensifying efforts in Southeast Asia and the Middle East, the Group aims to establish integrated local sales and service teams alongside investment and financing capabilities. With a vision to be a global Chinasoft, the Group seeks to wield significant influence in the global IT sphere, solidifying China's impact on worldwide technology trends.

Human Resources

As of June 30, 2023, the Group's total number of employees reached 72,937 (compared to 91,114 employees as of June 30, 2022), reflecting a decrease of 19.9% from the same period last year. The decrease in personnel is primarily influenced by fluctuations in key client business factors, and also due to the Group's strategic transformation, where a deliberate partial divestment of low-margin and low-value businesses was carried out.

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



Operating Results

The following is the Group's consolidated comprehensive income statement for the first half of 2022 and 2023 (unaudited):

	2023			2022		
	For the First half RMB'000	% of Revenue	% of Service Revenue	For the First half RMB'000	% of Revenue	% of Service Revenue
Revenue	8,450,060	N/A	N/A	10,025,275	N/A	N/A
Service revenue	8,295,751	N/A	N/A	9,820,494	N/A	N/A
Cost of sales and services	(6,448,925)	(76.3%)	(77.7%)	(7,543,550)	(75.2%)	(76.8%)
Gross profit	2,001,135	23.7%	24.1%	2,481,725	24.8%	25.3%
Other income	143,660	1.7%	1.7%	188,917	1.9%	1.9%
Other gains or losses	(5,663)	(0.1%)	(0.1%)	20,911	0.2%	0.2%
Selling and distribution costs	(420,993)	(5.0%)	(5.1%)	(511,289)	(5.1%)	(5.2%)
Other expenses	(38,083)	(0.5%)	(0.5%)	(27,473)	(0.3%)	(0.3%)
Administrative expenses	(1,210,380)	(14.3%)	(14.6%)	(1,445,384)	(14.4%)	(14.7%)
Finance costs	(83,087)	(1.0%)	(1.0%)	(51,868)	(0.5%)	(0.5%)
Impairment losses under expected credit loss model, net of reversal	(14,800)	(0.2%)	(0.2%)	(12,995)	(0.1%)	(0.1%)
Share of results of investments accounted for using the equity method	(28,598)	(0.3%)	(0.3%)	(30,627)	(0.3%)	(0.3%)
Loss from derecognition of financial assets measured at amortised cost	(818)	(0.0%)	(0.0%)	(1,464)	(0.0%)	(0.0%)
Profit before taxation	342,373	4.1%	4.1%	610,453	6.1%	6.2%
Income tax expense	8,314	0.1%	0.1%	(39,573)	(0.4%)	(0.4%)
Profit for the period	350,687	4.2%	4.2%	570,880	5.7%	5.8%
Profit attributable to Owners of the Company	351,028	4.2%	4.2%	571,554	5.7%	5.8%

Revenue

In the first half of 2023, the Group's revenue was RMB8,450.060 million (2022H1: RMB10,025.275 million), representing a 15.7% decline YoY. The service revenue was RMB8,295.751 million (2022H1: RMB9,820.494 million), representing a 15.5% decrease YoY. These declines in revenue are primarily attributed to reduced demand from core major clients during the reporting period, alongside the Group's strategic transformation prioritizing high-value projects and minimizing engagement in lower-value projects.

For the first half of 2023, the segment's revenue to total revenue and change are as follow:

	Six Months Ended 30 June 2023 RMB'000	% of Total	Six Months Ended 30 June 2022 RMB'000	% of Total	Growth Rate
TPG	7,631,522	90.3%	9,056,975	90.3%	(15.7%)
IIG	818,538	9.7%	968,300	9.7%	(15.5%)
Total	8,450,060	100%	10,025,275	100%	(15.7%)

Cost of Sales and Services

In the first half of 2023, the Group's cost of sales and services was RMB6,448.925 million (2022H1: RMB7,543.550 million), representing a YoY decrease of 14.5%. Additionally, the Group's cost of sales and services as a percentage of revenue was 76.3% in the first half of 2023 (2022H1: 75.2%), representing a YoY increase of 1.1%.

Gross Profit

In the first half of 2023, the Group's gross profit was RMB2,001.135 million (2022H1: RMB2,481.725 million), representing a YoY decrease of 19.4%. The gross profit margin for the first half of 2023 was 23.7% (2022H1: 24.8%), representing a 1.1% YoY decline. Furthermore, the Group's gross profit as a percentage of service revenue was 24.1% in the first half of 2023 (2022H1: 25.3%), representing a 1.2% YoY decrease. The reduction in gross profit margin during the reporting period is predominantly attributed to ongoing fluctuations in demand from key clients, leading to a decrease in the Group's profitability. However, compared to the gross profit margin of 21.2% in the second half of last year, there has been a 2.5% increase. In the future, the Group will continue to enhance efficiency and quality through financial-qualitative integration projects in traditional outsourcing. Additionally, it will further increase the proportion of high-margin and high-value-per-employee businesses. The Group will also expand its presence in cloud services and solutions, accelerate the development of the AIGC and AIOT industries, enhance the competitiveness of its services and products, and maintain a continuous focus on improving profit margin levels.

Other Income

In the first half of 2023, the Group's other income was RMB143.660 million (2022H1: RMB188.917 million), representing a YoY decrease of 24.0%. This decline is mainly attributed to a reduction in government subsidies compared to the previous year, along with adjustments due to modifications in the policy of value-added tax input offset, resulting in a decrease in other income during the reporting period.

Other Gains or Losses

In the first half of 2023, the Group's other losses was RMB5.663 million (2022H1: other gains RMB20.911 million), primarily due to fluctuations in the Hong Kong Dollar to Renminbi exchange rate during the reporting period.

Operating Expenses

In the first half of 2023, the Group's selling and distribution costs were RMB420.993 million (2022H1: RMB511.289 million), representing a YoY decrease of 17.7%. Additionally, the selling and distribution costs as a percentage of revenue was at 5.0% in the first half of 2023 (2022H1: 5.1%), representing a YoY decline of 0.1%.

In the first half of 2023, the Group's administrative expenses were RMB1,210.380 million (2022H1: RMB1,445.384 million), representing a YoY decrease of 16.3%. Additionally, the administrative expenses as a percentage of revenue was 14.3% in the first half of 2023 (2022H1: 14.4%), representing a YoY decline of 0.1%. During the reporting period, the company achieves improved functional and operational department management efficiency by enhancing budget management.

Finance Costs and Income Tax

In the first half of 2023, the Group's finance costs were RMB83.087 million (2022H1: RMB51.868 million), representing a YoY increase of 60.2%. Additionally, the finance costs as a percentage of revenue was 1.0% in the first half of 2023 (2022H1: 0.5%), indicating a YoY rise of 0.5%. This increase in financial expenses is primarily attributed to a rise in interest on overseas syndicated loans during the reporting period. After offsetting interest expenses with wealth management returns, the overall impact on finance costs remained relatively stable compared to the same period last year.

In the first half of 2023, the loss from derecognition of financial assets measured at amortized cost amounted to RMB0.818 million (2022H1: RMB1.464 million), representing a YoY decrease of 44.1%.

In the first half of 2023, the Group's income tax benefit was RMB8.314 million (2022H1: income tax expense RMB39.573 million). The main reasons for the income tax benefit are the increase in tax refunds generated by the annual settlement and payment of income taxes during the reporting period, as well as the implementation of the new policy of additional deduction for research and development expenses.

Other Non-Cash Expenses

In the first half of 2023, the Group's other expenses were RMB38.083 million (2022H1: RMB27.473 million), indicating a YoY increase of 38.6%. Additionally, the proportion of other expenses to revenue was 0.5% in the first half of 2023 (2022H1: 0.3%), representing a YoY rise of 0.2%.

In the first half of 2023, the Group's impairment losses under the expected credit loss model, net of reversals, amounted to RMB14.800 million (2022H1: RMB12.995 million), representing a YoY increase of 13.9%.

Working Capital, Financial, and Capital Resources

In the first half of 2023, the Group's total available cash balance (the sum of bank balances and cash, pledged bank deposits, and term deposits) amounted to RMB5,042.594 million (2022: RMB5,112.410 million).

In the first half of 2023, the Group's net current assets were RMB10,540.657 million (2022: RMB10,047.236 million). In the first half of 2023, the current ratio (the ratio of current assets divided by current liabilities) was 4.0, a slight increase of 0.2 from 3.8 in 2022.

In the first half of 2023, the Group's borrowings were RMB4,060.175 million (2022: RMB1,928.531 million). Gearing ratio is calculated as the amount of borrowings (borrowings and convertible loan notes minus available cash balance (the sum of bank balances and cash, pledged bank deposits, and term deposits)) divided by total equity. In the first half of 2023, the Group's available cash balance exceeded the sum of borrowings and convertible loan notes, resulting in a negative gearing ratio.

Profit for the Period and Earnings Per Share (EPS)

In the first half of 2023, the Group's profit for the period was RMB350.687 million (2022H1: RMB570.880 million), indicating a YoY decrease of 38.6%. The profit as a percentage of revenue for the first half of 2023 was 4.2% (2022H1: 5.7%), representing a YoY decrease of 1.5%. However, compared to the second half of last year, the proportion of estimated revenue from the profit has increased by 2.3% from 1.9%. Similarly, the profit as a percentage of service revenue for the first half of 2023 was 4.2% (2022H1: 5.8%), resulting in a decrease of 1.6% from the prior year's corresponding period. However, compared to the second half of last year, the proportion of estimated service revenue from the profit has increased by 2.3% from 1.9%.

In the first half of 2023, the Group's profit attributable to owners of the company amounted to RMB351.028 million (2022H1: RMB571.554 million), representing a YoY decrease of 38.6%.

Based on the Group's profit attributable to owners of the company, the calculated EPS for the first half of 2023 was RMB12.44 cents (2022H1: RMB19.62 cents), representing a YoY decrease of 36.6%.

Segment Revenue and Results

For the first half of 2023, the Group's revenue and results of each business group is as follows:

	Revenue			Results		
	Six Months Ended 30 June 2023 RMB'000	Six Months Ended 30 June 2022 RMB'000	Growth Rate	Six Months Ended 30 June 2023 RMB'000	Six Months Ended 30 June 2022 RMB'000	Growth Rate
TPG	7,631,522	9,056,975	(15.7%)	379,364	570,817	(33.5%)
IIG	818,538	968,300	(15.5%)	66,515	117,898	(43.6%)
Total	8,450,060	10,025,275	(15.7%)	445,879	688,715	(35.3%)

In terms of segment revenue, the revenue of the TPG decreased by 15.7% YoY. This decline was primarily influenced by reduced business demand from major clients in the telecommunications, finance, and internet industries, alongside the impact of the Group's strategic transformation to expand high-margin businesses. Similarly, the IIG saw a 15.5% YoY decrease in revenue, primarily attributed to lower income from the Jointforce Software Park and decreased commission revenue from cloud resource resale during the reporting period.

In terms of segment results, TPG's results declined by 33.5% YoY. This was primarily attributed to ongoing fluctuations in business demand from major clients, resulting in decreased profitability and business gross margins for the Group during the reporting period. However, it's worth noting that the profit margin for the TPG showed a gradual recovery compared to the second half of the previous year. Similarly, the IIG's performance decreased by 43.6% YoY, primarily due to reduced business activities in the Jointforce Software Park and lower revenue from cloud resource resale compared to the same period last year.

The Group believes that by fostering the growth of the second curve of new business through the development of 1+3 (Cloud Intelligence, HarmonyOS, Comprehensive ERP, AIGC) initiatives, actively participating in the construction of China's critical information infrastructure industry, and continuously igniting new sources of development momentum, the Group's business structure will continue to improve, and profit margins will gradually increase.

FUNDRAISING ACTIVITIES

During the current and last reporting periods, 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 summarised as below:

On 4 October 2021, the Company entered into the placing agreement with the placing agent, UBS AG Hong Kong Branch, to procure not less than six placees on a best efforts basis to purchase up to an aggregate of 162,000,000 placing shares at the placing price of HK\$12.26 per placing share.

The placing shares were allotted on 12 October 2021 under the general mandate granted to the Directors at the annual general meeting of the Company held on 18 May 2021. The net proceeds from the placing is approximately HK\$1,970 million (after deduction of commission and other expenses of the placing). The intended use and actual use of the proceeds are as follow:

Net proceeds allocation	Intended use of the proceeds	Actual use of the proceeds	The amount of the remaining net proceeds as at 30 June 2023	Expected time of utilisation (Note)
Approximately HK\$788 million	For the research and development of full-stack cloud smart products and solutions, as well as investments and mergers and acquisitions related to the Company's main business	Approximately HK\$480 million were used for the research and development of full-stack cloud smart products and solutions, as well as investments and mergers and acquisitions related to the Company's main business	Approximately HK\$308 million to be for the intended use	Before 31 December 2023
Approximately HK\$788 million	For developing hardware and software products and solutions for HarmonyOS and OpenHarmony, the research and development of full-stack technologies required for atomic services, making investments and mergers and acquisitions around the HarmonyOS and OpenHarmony industrial ecology	Approximately HK\$197 million were used for developing hardware and software products and solutions for HarmonyOS and OpenHarmony, the research and development of full-stack technologies required for atomic services, making investments and mergers and acquisitions around the HarmonyOS and OpenHarmony industrial ecology	Approximately HK\$591 million to be for the intended use	Before 31 December 2023
Approximately HK\$394 million	For general working capital of the Company	Approximately HK\$394 million were used for general working capital of the Company	–	–

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.

INTERIM RESULTS

The board of Directors (the “Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2023 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June	
	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Revenue	3	8,450,060	10,025,275
Cost of sales and services		(6,448,925)	(7,543,550)
Gross profit		2,001,135	2,481,725
Other income		143,660	188,917
Other gains or losses		(5,663)	20,911
Selling and distribution costs		(420,993)	(511,289)
Other expenses		(38,083)	(27,473)
Administrative expenses		(1,210,380)	(1,445,384)
Finance costs	4	(83,087)	(51,868)
Impairment losses under expected credit loss model, net of reversal		(14,800)	(12,995)
Share of results of investments accounted for using the equity method		(28,598)	(30,627)
Loss from derecognition of financial assets measured at amortised cost		(818)	(1,464)
Profit before taxation		342,373	610,453
Income tax expense	5	8,314	(39,573)
Profit for the period		350,687	570,880
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		(3,266)	1,743
Total comprehensive income for the period		347,421	572,623
Profit for the period attributable to:			
Owners of the Company		351,028	571,554
Non-controlling interests		(341)	(674)
		350,687	570,880

		For the six months ended 30 June	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Total comprehensive income attributable to:			
Owners of the Company		347,762	573,297
Non-controlling interests		(341)	(674)
		<u>347,421</u>	<u>572,623</u>
Earnings per share	7		
– Basic (cents)		<u>12.44</u>	<u>19.62</u>
– Diluted (cents)		<u>12.08</u>	<u>18.70</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment		1,163,684	1,119,112
Right-of-use assets		371,652	439,447
Intangible assets		292,690	280,773
Goodwill		843,654	843,654
Investments accounted for using the equity method		455,919	485,163
Financial assets at fair value		159,560	159,560
Derivative financial instruments		37,941	–
Other receivables		9,535	21,703
Term deposits		550,000	10,000
Pledged bank deposits		3,930	3,930
Deferred tax assets		934	921
		3,889,499	3,364,263
Current assets			
Inventories		118,065	99,358
Trade and other receivables	8	7,077,784	6,156,543
Bills receivable		30,894	54,563
Contract assets		2,115,183	1,998,731
Financial assets at fair value		120,000	90,000
Amount due from related companies		102,901	102,847
Term deposits		–	48,000
Pledged bank deposits		46,004	45,254
Bank balances and cash		4,442,660	5,005,226
		14,053,491	13,600,522
Current liabilities			
Trade and other payables	9	1,704,982	2,043,359
Bills payable		–	5,350
Lease liabilities		184,571	180,951
Contract liabilities		311,791	339,220
Amounts due to related companies		14,473	44,081
Dividend payable		81	81
Taxation payable		125,271	154,184
Borrowings	10	1,171,665	766,068
Consideration payable		–	19,992
		3,512,834	3,553,286
Net current assets		10,540,657	10,047,236
Total assets less current liabilities		14,430,156	13,411,499

		(Unaudited) 30 June 2023 <i>RMB'000</i>	(Audited) 31 December 2022 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		11,191	11,715
Lease liabilities		41,997	102,530
Borrowings	10	<u>2,888,510</u>	<u>1,162,463</u>
		<u>2,941,698</u>	<u>1,276,708</u>
		<u>11,488,458</u>	<u>12,134,791</u>
Capital and reserves			
Share capital	11	134,799	136,837
Share premium		5,670,371	6,013,911
Treasury shares		(1,157,251)	(538,555)
Reserves		<u>6,815,854</u>	<u>6,497,572</u>
Equity attributable to owners of the Company		<u>11,463,773</u>	12,109,765
Non-controlling interests		<u>24,685</u>	<u>25,026</u>
Total equity		<u>11,488,458</u>	<u>12,134,791</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Attributable to the owners of the Company

	Share capital	Share premium	Treasury shares	Other reserves	Fair value through other comprehensive income reserve	Translation reserve	Equity-settled share-based payment reserve	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve fund	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	<u>138,703</u>	<u>6,293,665</u>	<u>(588,741)</u>	<u>(122,769)</u>	<u>(13,834)</u>	<u>(16,027)</u>	<u>283,073</u>	<u>15,793</u>	<u>26,749</u>	<u>286,796</u>	<u>5,300,513</u>	<u>11,603,921</u>	<u>22,638</u>	<u>11,626,559</u>
Profit for the period	-	-	-	-	-	-	-	-	-	-	571,554	571,554	(674)	570,880
Other comprehensive (expenses) income for the period	-	-	-	-	-	1,743	-	-	-	-	-	1,743	-	1,743
Total comprehensive income (expenses) for the period	-	-	-	-	-	1,743	-	-	-	-	571,554	573,297	(674)	572,623
Issue of ordinary shares upon exercise of share-based payments	1,023	143,981	-	-	-	-	(29,431)	-	-	-	-	115,573	-	115,573
Recognition of share-based payments expenses	-	-	-	-	-	-	68,586	-	-	-	-	68,586	-	68,586
Repurchase of shares	-	-	(148,371)	-	-	-	-	-	-	-	-	(148,371)	-	(148,371)
Cancellation of repurchased shares	(1,025)	(124,805)	125,830	-	-	-	-	-	-	-	-	-	-	-
Vesting of share awards	-	(5,290)	112,303	-	-	-	(107,013)	-	-	-	-	-	-	-
Purchase of shares under share award scheme	-	-	(54,936)	-	-	-	-	-	-	-	-	(54,936)	-	(54,936)
Dividends paid to ordinary shareholders	-	(84,147)	-	-	-	-	-	-	-	-	-	(84,147)	-	(84,147)
At 30 June 2022	<u>138,701</u>	<u>6,223,404</u>	<u>(553,915)</u>	<u>(122,769)</u>	<u>(13,834)</u>	<u>(14,284)</u>	<u>215,215</u>	<u>15,793</u>	<u>26,749</u>	<u>286,796</u>	<u>5,872,067</u>	<u>12,073,923</u>	<u>21,964</u>	<u>12,095,887</u>
At 1 January 2023	<u>136,837</u>	<u>6,013,911</u>	<u>(538,555)</u>	<u>(122,769)</u>	<u>(13,834)</u>	<u>(17,956)</u>	<u>262,839</u>	<u>15,793</u>	<u>26,749</u>	<u>314,075</u>	<u>6,032,675</u>	<u>12,109,765</u>	<u>25,026</u>	<u>12,134,791</u>
Profit for the period	-	-	-	-	-	-	-	-	-	-	351,028	351,028	(341)	350,687
Other comprehensive (expenses) income for the period	-	-	-	-	-	(3,266)	-	-	-	-	-	(3,266)	-	(3,266)
Total comprehensive income (expenses) for the period	-	-	-	-	-	(3,266)	-	-	-	-	351,028	347,762	(341)	347,421
Recognition of share-based payments expenses	-	-	-	-	-	-	34,331	-	-	-	-	34,331	-	34,331
Repurchase of shares	-	-	(230,053)	-	-	-	-	-	-	-	-	(230,053)	-	(230,053)
Cancellation of repurchase of shares	(2,038)	(194,998)	197,036	-	-	-	-	-	-	-	-	-	-	-
Vesting of share awards	-	(10,206)	74,017	-	-	-	(63,811)	-	-	-	-	-	-	-
Purchase of shares under share award scheme	-	-	(659,696)	-	-	-	-	-	-	-	-	(659,696)	-	(659,696)
Dividends paid to ordinary shareholders	-	(138,336)	-	-	-	-	-	-	-	-	-	(138,336)	-	(138,336)
At 30 June 2023	<u>134,799</u>	<u>5,670,371</u>	<u>(1,157,251)</u>	<u>(122,769)</u>	<u>(13,834)</u>	<u>(21,222)</u>	<u>233,359</u>	<u>15,793</u>	<u>26,749</u>	<u>314,075</u>	<u>6,383,703</u>	<u>11,463,773</u>	<u>24,685</u>	<u>11,488,458</u>

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended	
	30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(731,184)	(798,572)
Net cash used in investing activities	(721,980)	(573,157)
Net cash generated from financial activities	812,612	302,897
Net decrease in cash and cash equivalents	(640,552)	(1,068,832)
Effect of foreign exchange rate changes	77,986	58,428
Cash and cash equivalents at the beginning of the period	5,005,226	5,556,380
Cash and cash equivalents at the end of the period	4,442,660	4,545,976

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at their fair values.

The accounting policies used in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards and interpretations effective as at 1 January 2023.

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

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The adoption of these new and revised HKFRSs did not have any significant effect on the unaudited condensed consolidated financial statements of the Group.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2023 RMB’000	2022 RMB’000
Nature of goods and services		
Provision of services		
Project-based development services	1,049,550	1,026,376
Outsourcing services	7,149,360	8,659,431
Others	96,841	134,687
	<u>8,295,751</u>	<u>9,820,494</u>
Sales of software and hardware products	154,309	204,781
	<u>8,450,060</u>	<u>10,025,275</u>

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Timing of revenue recognition		
Over time	8,295,751	9,820,494
At a point in time	154,309	204,781
	8,450,060	10,025,275

Revenue represents the net amounts received and receivable for goods sold and services rendered during the period.

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers 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.

Information regarding the above segments is reported as below.

Segment revenue and results

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

	For the six months ended 30 June			
	Segment revenue		Segment results	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Technical Professional Services Group (TPG)	7,631,522	9,056,975	379,364	570,817
Internet IT Services Group (IIG)	818,538	968,300	66,515	117,898
	8,450,060	10,025,275	445,879	688,715

During the six months ended 30 June 2023, the segment revenue is reported after eliminating inter-segment services revenue of RMB324,569,000 (2022: RMB394,772,000).

Reconciliation of segment results to profit before taxation:

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	445,879	688,715
Unallocated other income, gains and losses unallocated	9,324	26,532
Unallocated interest on borrowings	(54,840)	(15,441)
Corporate expenses	(22,861)	(14,833)
Share-based payment expenses	(34,331)	(68,586)
Unallocated share of result of investments accounted for using the equity method	(798)	(5,934)
	<u>342,373</u>	<u>610,453</u>
Profit before taxation	<u>342,373</u>	<u>610,453</u>

Segment revenue by products and services:

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of software and hardware products	<u>154,309</u>	<u>204,781</u>
Technical Professional Services Group (TPG)	7,579,754	9,042,704
Internet IT Services Group (IIG)	<u>715,997</u>	<u>777,790</u>
	<u>8,295,751</u>	<u>9,820,494</u>
	<u>8,450,060</u>	<u>10,025,275</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings	77,399	42,244
Interest of lease liabilities	<u>5,688</u>	<u>9,624</u>
	<u>83,087</u>	<u>51,868</u>

5. TAXATION

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Tax charge comprises:		
PRC Enterprise Income Tax	(12,253)	33,451
Others	3,939	6,122
	<u>(8,314)</u>	<u>39,573</u>

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

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

6. DIVIDEND

During the six months ended 30 June 2023, a final dividend of HK\$0.0567 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2022 (2021: HK\$0.0323) was declared to the owners of the Company and paid on 26 June 2023. The aggregate amount of the final dividend declared during the six months ended 30 June 2023 amounted to HK\$153,445,586 (2022: HK\$99,148,317).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2023 (2022: Nil).

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of calculating basic earnings per share and diluted earnings per share	<u>351,028</u>	<u>571,554</u>

	Number of shares	
	2023	2022
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>2,821,509,612</u>	<u>2,913,695,916</u>
Effect of dilutive potential ordinary shares:		
Share options	26,521	11,883,742
Share award scheme	<u>84,173,265</u>	<u>130,187,530</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u><u>2,905,709,398</u></u>	<u><u>3,055,767,188</u></u>

The computation of diluted earnings per share for the period ended 30 June 2023 and 30 June 2022 assume the exercise of all of the Company's share options granted since the exercise prices of all these share options were lower than the average market price of shares of the Company.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Trade receivables, net of allowance	6,191,260	5,469,959
Advances to suppliers	569,432	435,490
Deposits, prepayments and other receivables, net of allowance	<u>326,627</u>	<u>272,797</u>
	<u><u>7,087,319</u></u>	<u><u>6,178,246</u></u>
Analysed for reporting purposes as:		
Non-current assets	9,535	21,703
Current assets	<u>7,077,784</u>	<u>6,156,543</u>
	<u><u>7,087,319</u></u>	<u><u>6,178,246</u></u>

Included in the non-current assets are other receivables representing the refundable lease deposit for the rental office.

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

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Within 90 days	4,729,010	4,384,078
Between 91 – 180 days	683,317	542,808
Between 181 – 365 days	555,153	346,246
Between 1 – 2 years	223,780	196,827
	<u>6,191,260</u>	<u>5,469,959</u>

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

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Trade payables	584,438	665,267
Other payables	1,120,544	1,378,092
	<u>1,704,982</u>	<u>2,043,359</u>

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

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Within 90 days	175,431	273,778
Between 91-180 days	64,300	84,672
Between 181-365 days	124,724	82,796
Between 1-2 years	114,690	177,883
Over 2 years	105,293	46,138
	<u>584,438</u>	<u>665,267</u>

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

The fair value of the Group's trade and other payables at 30 June 2023 was approximately equal to the corresponding carrying amount.

10. BORROWINGS

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Unsecured bank loans (<i>Note (i)</i>)	4,060,175	1,928,531
Secured bank loans	—	—
	<u>4,060,175</u>	<u>1,928,531</u>
	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Carrying amount repayable:		
Within one year	1,171,665	766,068
Within a period of more than one year but not more than two years	657,310	151,899
Within a period of more than two year but not more than five years	<u>2,231,200</u>	<u>1,010,564</u>
	4,060,175	1,928,531
Less: Amounts due within one year shown under current liabilities	<u>(1,171,665)</u>	<u>(766,068)</u>
Amounts shown under non-current liabilities	<u>2,888,510</u>	<u>1,162,463</u>
	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Total borrowings		
At floating interest rates – under an instalment loan facility (<i>Note (i)</i>)	2,735,451	1,166,278
At floating interest rates – others (<i>Note (ii)</i>)	330,000	350,000
At fixed interest rates – others (<i>Note (iii)</i>)	<u>994,724</u>	<u>412,253</u>
	<u>4,060,175</u>	<u>1,928,531</u>

Other than the loan's which is denominated in Hong Kong dollars as described in Note (i) below, the Group's borrowings are denominated in currencies of the relevant group entities' functional currencies.

Notes:

- (i) Guaranteed by the Company and certain subsidiaries of the Company.

During 2022 and 2023, the Company raised loans of HK\$3,000 million in two tranches from its loan facility with a group of financial institutions. The loans represent all commitments under the facility agreement and are repayable by instalments as to 5%, 10%, 15% and 70%, respectively, in June 2024, December 2024, June 2025, and December 2025. The contracted interest rate is the applicable Hong Kong Interbank Offered Rate ("HIBOR") plus 1.3% per annum. Under the terms of the facility agreement, the Company is required to comply with financial covenants to maintain a consolidated tangible net worth of no less than RMB3,800 million, and certain ratios of (1) consolidated EBITDA to consolidated financial expenses, (2) consolidated total net debt to consolidated EBITDA, and (3) cash dividend to distributable profits of the Company.

- (ii) Interests on borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the first half year of 2023 is 3.79% (2022: 3.24%) per annum.

- (iii) Interests on fixed interest rates borrowings are charged at interest rates ranged from 2.55% to 3.00% (2022: 3.20%) per annum.

11. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

	Number of shares	Nominal amount HK\$
Authorised		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	<u>4,000,000,000</u>	<u>200,000,000</u>

	Number of shares	Nominal amount <i>HK\$</i>	Amount shown in the financial statements <i>RMB'000</i>
Issued and fully paid			
At 1 January 2022	3,068,907,358	153,445,369	138,703
Exercise of share-based payments	25,000,000	1,250,000	1,023
Cancellation of repurchased shares	<u>(24,300,000)</u>	<u>(1,215,000)</u>	<u>(1,025)</u>
At 30 June 2022	<u>3,069,607,358</u>	<u>153,480,369</u>	<u>138,701</u>
At 31 December 2022 and 1 January 2023	3,027,011,358	151,350,569	136,837
Cancellation of repurchased shares	<u>(45,102,000)</u>	<u>(2,255,100)</u>	<u>(2,038)</u>
At 30 June 2023	<u>2,981,909,358</u>	<u>149,095,469</u>	<u>134,799</u>

12. CAPITAL COMMITMENTS

	(Unaudited) 30 June 2023 <i>RMB'000</i>	(Audited) 31 December 2022 <i>RMB'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	1,310	5,778
– construction of property, plant and equipment	648,805	663,265
	<u>650,115</u>	<u>669,043</u>

In addition, as at 30 June 2023, the Group is committed to contributions of further capital amounting to RMB296,408,000 (2022: RMB296,408,000) under the relevant agreements for its investments in entities accounted for using equity method and using fair value.

13. RELATED PARTY TRANSACTIONS

During the relevant periods in 2022 and 2023, the Group had the following transactions with the following related parties:

	For the six months ended 30 June	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Provision of IT outsourcing services by the Group	1,273	36
Provision of IT solution services by the Group	2,555	–
Provision of other services by the Group	1,811	4,351

The Directors are of the opinion that the above transactions were conducted under normal commercial terms in the usual course of business of the Company.

14. EMPLOYEE AND OTHER INFORMATION

The total employee benefits expenses of the Group amounted to approximately RMB7,199,889,000 including the directors' emoluments of approximately RMB11,995,000 during the six months ended 30 June 2023 (2022: approximately RMB8,598,009,000, including the directors' emoluments of approximately RMB12,585,000).

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2023 of the Group amounted to approximately RMB38,083,000 (2022: RMB27,473,000) and approximately RMB198,267,000 (2022: RMB220,863,000), respectively.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2023, 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 2023 to 30 June 2023, except for the following deviations as explained:

Code Provision C.1.6

Under Code provision C.1.6, independent non-executive directors and other non-executive directors, as equal board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings to gain and develop a balanced understanding of the views of shareholders. Due to other business commitment, two independent non-executive Directors and two non-executive Directors were unable to attend the annual general meeting of the Company held on 22 May 2023 in Hong Kong (the “2022 AGM”).

Code Provision C.2.1

Under Code provision C.2.1, The roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Officer of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership, and it allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rule relating to dealings in securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 30 June 2023.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2023, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name	Capacity	Number of issued ordinary shares held	Number of underlying shares held under equity derivatives	Total number of shares	Approximate % of total issued ordinary share as at 30 June 2023
Chen Yuhong	Beneficial owner, through controlled corporation, founder of discretionary trust and beneficiary of trust Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	305,492,861 (Note 1) 24,649,283 (Note 2)	–	330,142,144	11.07%
He Ning	Beneficial owner	300,000	–	300,000	0.01%
Tang Zhenming	Beneficial owner and beneficiary of trust	19,027,765 (Note 3)	–	19,027,765	0.64%
Zhang Yaqin	Beneficial owner	400,000	1,000,000 (Note 4)	1,400,000	0.05%
Gao Liangyu	Beneficial owner	–	1,000,000 (Note 4)	1,000,000	0.03%
Lai Guanrong	Beneficial owner	–	800,000 (Note 4)	800,000	0.03%
Mo Lailan	Beneficial owner	–	800,000 (Note 4)	800,000	0.03%

Notes:

- (1) The 16,600,000 shares are the awarded shares granted to Dr. Chen Yuhong on 1 June 2020 and held by the trustee to the Share Award Scheme – Bank of Communications Trustee Limited, of which 5,600,000 awarded shares were vested and transferred to Dr. Chen during May 2021 while another 5,500,000 awarded shares were vested during June 2022 and transferred to Dr. Chen during July 2022. During the reporting period, 1,650,000 awarded shares were eligible for vesting. The remaining awarded shares will be vested by period based on future performance.
- (2) Pursuant to the concert party agreement entered by Dr. Chen Yuhong, Dan Capital Kunlun Limited Partnership (the “Kunlun”) and Dan Capital Management Limited (the “Dan Capital”) on 16 June 2022, Dr. Chen was deemed to be interested in 24,649,283 shares of the Company held by Kunlun for the purposes of section 317 of the SFO. Please refer to Form 3A - Director/Chief Executive Notice - Interests in Shares of Listed Corporation dated 16 June 2022 for further details of the shareholding structure.
- (3) The 7,200,000 shares are the awarded shares granted to Dr. Tang Zhenming on 1 June 2020 and held by the trustee to the Share Award Scheme – Bank of Communications Trustee Limited, of which 1,440,000 awarded shares were vested and transferred to Dr. Tang during May 2021 while another 1,440,000 awarded shares were vested during June 2022 and transferred to Dr. Tang during July 2022. During the reporting period, 432,000 awarded shares were eligible for vesting. The remaining awarded shares will be vested by period based on future performance.
- (4) The interests in underlying shares of the Company represent interests in options granted to the director.

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of	No. of	No. of	Percentage	Total No. of	Percentage	Note
		share options outstanding as at 1 January 2023	share options exercised during the period	share options outstanding as at 30 June 2023	of total issued ordinary share of the Company as at 30 June 2023	ordinary shares interested as at 30 June 2023	of total issued ordinary share of the Company as at 30 June 2023	
Zhang Yaqin	5.65	1,000,000	–	1,000,000	0.03%	1,000,000	0.03%	(i)
Gao Liangyu	5.65	1,000,000	–	1,000,000	0.03%	1,000,000	0.03%	(i)
Lai Guanrong	5.65	800,000	–	800,000	0.03%	800,000	0.03%	(i)
Mo Lailan	5.65	800,000	–	800,000	0.03%	800,000	0.03%	(i)

Note:

- (i) These share options were offered on 27 August 2020 under the 2013 Share Option Scheme of the Company adopted on 20 May 2013 and accepted on 20 September 2020. The share options are exercisable for a period of 4 years from the date of offer subject to the following conditions:

Exercisable Period Commencing	Exercise Period Ending	Number of share options exercisable
27/08/2021	26/08/2024	40% of the total number of share options granted
27/08/2022	26/08/2024	30% of the total number of share options granted
27/08/2023	26/08/2024	30% of the total number of share options granted

Save as disclosed above and so far as was known to the Directors, as at 30 June 2023, none of the Directors or chief executive of the Company had any interests or shorts in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provision of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code, to be Company and the Stock Exchange.

SHARE OPTION SCHEME

A share option scheme (the “2013 Share Option Scheme”) was adopted by the Company for a period of 10 years pursuant to a written resolution of all the shareholders of the Company on 20 May 2013. The 2013 Share Option Scheme was expired on 20 May 2023 and no further share options would be granted or accepted but in all other respects the provisions of the 2013 Share Option Scheme remained in full force and share options which were granted and accepted during the life of the 2013 Share Option Scheme may continue to be valid and exercisable in accordance with their terms of issue.

As at 30 June 2023, pursuant to the 2013 Share Option Scheme, the share options to subscribe for an aggregate of 62,990,000 Shares granted to certain Directors, employees and suppliers of the Group were outstanding, representing 2.11% of the total issued ordinary share capital of the Company as at 30 June 2023.

During the reporting period before the 2013 Share Option Scheme expired, no share options were granted, exercised and lapsed under the 2013 Share Option Scheme.

SHARE AWARD SCHEME

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

During the period ended 30 June 2023, a total consideration of approximately HK\$748,493,000 (2022 same period: approximately HK\$67,000,000) has been used to acquire 143,184,000 shares (2022 same period: 7,374,000 shares) of the Company from open market by the independent trustee of the Company.

The Company had granted a total of 152,000,000 awarded shares under the Share Award Scheme on 1 June 2020, of which 23,800,000 awarded shares were granted to the directors of the Company and will be vested by period based on the future performance.

During the reporting year, the awarded shares were vested to Directors, five highest paid employees (excluding directors) and employees, details of which are as follows:

Selected Employee	Granted but not vested as at 1 January 2023	Granted during the period	Vested during the period	Grant but not vested as at 30 June 2023
Chen Yuhong (Director)	5,500,000	–	1,650,000	3,850,000
Tang Zhenming (Director)	4,320,000	–	432,000	3,888,000
Five highest paid employees (excluding directors)	16,600,000	–	4,224,000	12,376,000
Employees	74,703,000	–	11,821,000	62,882,000
	<u>101,123,000</u>	<u>–</u>	<u>18,127,000</u>	<u>82,996,000</u>

Note: The shares vested during the period were transferred to the selected employee after the period end.

As at 30 June 2023, 282,638,000 shares (2022 same period: 167,511,000 shares) of the Company were held by the independent trustee of the Company, representing 9.48% (2022 same period: 5.46%) of the total issued ordinary share capital of the Company as at 30 June 2023.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June 2023 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2023 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2023, the Company had adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules relating to dealings in securities. Having made specific enquiry with all the Directors, the Directors had complied with the Model Code regarding securities transactions during the six months ended 30 June 2023.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2023, the following persons (not being a Director or chief executive of the Company) had interests or short position in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions/short positions in Shares

Name	Nature of interest	Approximate number of Shares	Approximate % of total issued ordinary share of the Company
Dan Capital Tangkula Limited Partnership (<i>Note 1</i>)	Interest of other parties to an agreement required to be disclosed under S.317 of the SFO	330,142,144 (L)	11.07%
UBS Group AG (<i>Note 2</i>)	Interest of controlled corporations	270,058,029 (L)	9.06%
Bank of Communications Trustee Limited (<i>Note 3</i>)	Trustee	282,638,000 (L)	9.48%
BlackRock, Inc. (<i>Note 4</i>)	Interest of controlled corporations	128,580,105 (L) 2,952,000 (S)	4.31% 0.10%

*Abbreviations: "L" stands for long position
"S" stands for short position*

Notes:

- (1) Pursuant to the concert party agreement entered by Dr. Chen Yuhong, Dan Capital Kunlun Limited Partnership (the “Kunlun”) and Dan Capital Management Limited (the “Dan Capital”) on 16 June 2022, Dr. Chen was deemed to be interested in 24,649,283 underlying shares of the Company held by Kunlun for the purposes of section 317 of the SFO. Please refer to Form 2 - Corporate Substantial Shareholder Notice dated 16 June 2022 for further details of the shareholding structure.
- (2) UBS Group AG is deemed to be interested in the long positions of 270,058,029 shares in the Company held by its wholly owned subsidiaries. Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 29 June 2023 for further details of the shareholding structure.
- (3) On 10 December 2018, the Company entered into a trust deed to appoint Bank of Communications Trustee Limited as trustee of the trust and to manage the trust fund and administer the Share Award Scheme of the Company. Details of the Share Award Scheme are set out in the section headed “Other Information” of this report.
- (4) BlackRock, Inc. is deemed to be interested in the long positions of 128,580,105 shares and short position of 2,952,000 shares of the Company held by its wholly owned subsidiaries. Please refer to the Form 2 – Corporate Substantial Shareholder Notice dated 7 March 2023 for further details of the shareholding structure.

Save as disclosed above, as at 30 June 2023, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30 June 2023, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference in compliance with the requirements as set out in the CG Code of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group.

During the period from 1 January 2023 to 22 May 2023, 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 Guanrong as the members of the Audit Committee. Since Mr. Zeng Zhijie retired on 22 May 2023 at the 2022 AGM, the number of independent non-executive Director fell short of the minimum number required under Rule 3.10(1) and 3.10A of the Listing Rules. The composition of the audit committee of the Company did not meet the requirement under Rule 3.21.

The Company will seek suitable candidate to fill the vacancy of independent non-executive Director and member of the audit committee of the Company within three months from 22 May 2023 pursuant to Rule 3.11 and Rule 3.23 of the Listing Rules, and make further announcement as and when appropriate.

Except the above situation, the Audit Committee has reviewed the Group's interim result for the six months ended 30 June 2023 in compliance with Rule 3.21 of the Listing Rules, and the relevant code provisions of the CG Code of the Listing Rules and has also discussed the internal control, the accounting principles and practices adopted by the Group. The Audit Committee is of the opinion that the interim result for the six months ended 30 June 2023 have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim report.

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

During the six months ended 30 June 2023, the Company repurchased 52,402,000 of its shares on the Stock Exchange, of which 45,102,000 shares were subsequently cancelled by the Company during the reporting period and 7,300,000 shares were subsequently cancelled by the Company before the date of this announcement. The total amount paid for the repurchased shares of HK\$253,706,000 was paid wholly out of the Company's existing available cash reserves. Details of those transactions are as follows:

Month	Number of shares repurchased	Price per share		Total price paid HK\$
		Highest HK\$	Lowest HK\$	
May 2023	36,102,000	4.99	4.63	174,156,380
June 2023	9,000,000	4.82	4.66	43,138,720
June 2023	7,300,000*	5.11	4.89	36,410,900
	<u>52,402,000</u>			<u>253,706,000</u>

* *The repurchased shares were cancelled on 27 July 2023.*

The repurchase of the Company's shares was effected by the Directors, pursuant to the mandate granted by the shareholders of the Company to the Directors at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

During the period ended 30 June 2023, the Company's 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 143,184,000 shares of the Company at a total consideration of approximately HK\$748,493,000.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2023.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float for the six months ended 30 June 2023.

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

17 August 2023, Hong Kong

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

* *For identification purposes only*