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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 2022**

HIGHLIGHTS

Results for the first half of 2022

Income statement highlights	For the six months ended 30 June		% Change
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	
Revenue	10,025,275	8,340,938	20.2%
Service revenue	9,820,494	8,258,599	18.9%
Profit for the period	570,880	516,998	10.4%
Profit attributable to Owners of the Company	571,554	517,724	10.4%
Basic EPS (RMB cents)	19.62	18.92	3.7%

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022.
- No closure for the Register of Members of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY OPERATING DATA

During the first half of 2022, the Group's businesses achieved steady growths. The Group's revenue, service revenue, profit for the period, profit attributable to the owners of the Company, and EPS increased by 20.2%, 18.9%, 10.4%, 10.4%, and 3.7% respectively.

	Six Months Ended 30 June		% Change
	2022	2021	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	10,025,275	8,340,938	20.2%
Service revenue	9,820,494	8,258,599	18.9%
Profit for the period	570,880	516,998	10.4%
Profit attributable to Owners of the Company	571,554	517,724	10.4%
Basic EPS (RMB cents)	19.62	18.92	3.7%

The Key operating date (unaudited) for the six months ended 30 June 2022 are as follow:

	Six Months Ended 30 June		% Change
	2022	2021	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	10,025,275	8,340,938	20.2%
Service revenue	9,820,494	8,258,599	18.9%
Cost of sales and services	(7,543,550)	(6,047,180)	24.7%
Gross Profit	2,481,725	2,293,758	8.2%
Other income	188,917	214,194	(11.8%)
Other gains or losses	20,911	(6,532)	(420.1%)
Selling and distribution costs	(511,289)	(451,136)	13.3%
Other expenses	(27,473)	(23,199)	18.4%
Administrative expenses	(1,445,384)	(1,381,478)	4.6%
Finance costs	(51,868)	(44,955)	15.4%
Impairment losses under expected credit loss model, net of reversal	(12,995)	(15,096)	(13.9%)
Share of results of investments accounted for using the equity method	(30,627)	(8,860)	245.7%
Loss from derecognition of financial assets measured at amortised cost	(1,464)	(553)	164.7%
Profit before taxation	610,453	576,143	6.0%
Income tax expense	(39,573)	(59,145)	(33.1%)
Profit for the period	570,880	516,998	10.4%

GENERAL OVERVIEW

In 2022, with the backdrop of repeated domestic epidemics and changing global situation, the Group responded to external changes with a systematic approach, seized the “software will define the future and drive the future opportunities”, continuously strengthened capacities, focused on customers, and thoroughly delivered the annual operation objectives. As a result, the Group achieved sustained and stable interim result growths. The Group’s cornerstone business has made steady progress, the cloud intelligence business has developed rapidly, and new businesses such as intelligent Internet of Things, enterprise application services, and intelligent vehicles have achieved milestone breakthroughs. Lastly, the Group has been ranked in Gartner’s “TOP100 Global IT Service Market Share Report” for four consecutive years, improving its ranking to 80th place, and demonstrating the value of China’s leading IT service enterprises.

During the reporting period, the Group, guided by the scene-based innovation of OpenHarmony, focused on the development of the digital economy, built Harmony City and the industrial highland of OpenHarmony, and became the main force in the ecological construction of OpenHarmony and HarmonyOS Connect. The Group actively promoted the application of OpenHarmony, built a new pattern of independent innovation and intelligent Internet of Things, opened up the second battlefield of the Group’s To-C software and hardware integrated business, promoted the ecological development of OpenHarmony, and contributed new momentum to the accelerated development of the digital economy.

During the reporting period, the cloud intelligence business maintained rapid growth. The cloud intelligent business vertically increased the conversion rate along the path of “cloudization, managing cloud, and cloud native”, and built the “platform + service” business; and expanded industry solutions and industry services by means of the “cloud adept, industry adept and ecosystem aggregation”. The Group continued to create high-quality solutions in industries such as government administration, transportation, manufacturing, finance and energy, and provided leading cloud solutions and cloud services for government and enterprise institutions while continuing to improve its cloud service capabilities to cover the entire life cycle. The Group cooperated with major partners such as Yonyou and Kingdee to jointly create a product matrix covering all scenarios of digital transformation in industries such as energy, manufacturing, high-tech, and healthcare, with goals to empower customers comprehensively. During the reporting period, the Group completed the strategic investment in Elitesland and Fenxiangpinke, built a service delivery system and tool platform, accelerated the digital transformation of customers, and boosted the development of the digital economy.

During the reporting period, Jointforce accelerated the creation of a digital full-process service system based on the “platform + service” model, and carried out substantial optimization and upgrades. The Group further expanded the scope of deep cultivation in cities, established a personal service model to include “project butler”, escorted the whole process of digital transformation of government and enterprise customers, and accelerated the ammunition establishment of capabilities and service models for digital transformation of government and enterprises.

During the reporting period, the Group rapidly promoted the standardization of software factories, officially launched software factory equipment tools and products, and successfully delivered them in many fields. The Group seized the opportunity of the industry leapfrog development strategy brought by the top ICT infrastructure in a industry and the strategy of intelligent terminal service providers, and jointly innovated in key industries such as coal mines, ports, electric power, and government affairs to form a variety of industry solutions and accelerate the process of digital transformation of enterprises.

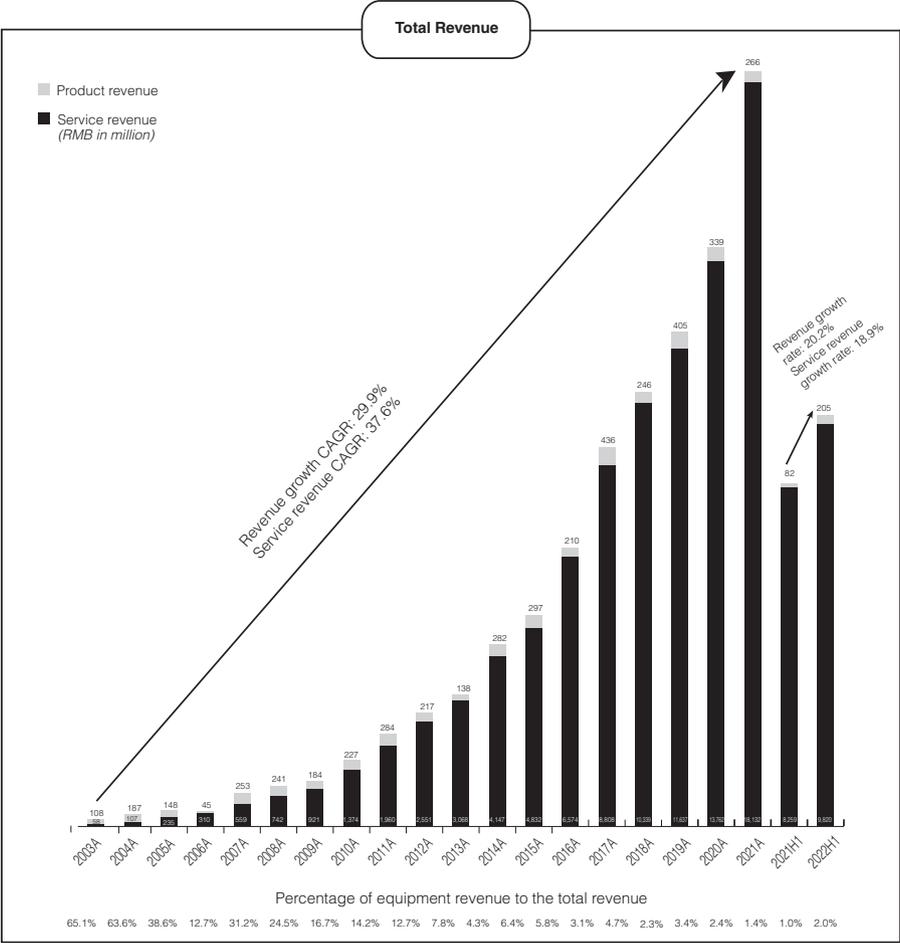
During the reporting period, the Group’s financial business grew steadily, adding 27 new customers including domestic and foreign banks, private banks, non-bank financial institutions, and overseas financial institutions. The Group actively participated in the e-CNY construction of many large state-owned banks, national joint-stock banks, city commercial banks, rural credit cooperatives and foreign banks, helping customers in the e-CNY core, channel system, bank front-end, acquiring and various digital currency scenarios construction.

During the reporting period, the Group continued to develop its two major telecommunications operators, China Mobile and China Telecom, and steadily promoted the business of major equipment supplier customers and pan-electronic equipment supplier customers. The Group realized the large-scale delivery of the OneNET city IoT platform project for China Mobile IoT. The Group’s operator IT service business has grown steadily, and its share has continued to expand, breaking through China Tower as customer for the first time.

During the reporting period, the Group continued to deeply cultivate the Internet industry. While maintaining a leading position in the business of major customers such as Tencent, Ali, and Baidu, it continued to expand the customers of well-known Internet companies such as ByteDance, JD.com, and Meituan. The Group deeply explored customer business scenarios and accumulated digital operation service practices.

Looking forward to the second half of the year, China’s economy will recover, and the digital economy will usher in faster development in the context of the overall economic environment. The Group will actively follow the wave of digital productivity investment, and firmly, persistently, and resolutely enroot downwards, make breakthroughs upwards, and achieve its own leap-forward development. The Group will continue to move towards the goal of becoming a global leader in technology-based IT services that is “one of the best in the world”!

Since listing on the GEM board in 2003, the Group has maintained high revenue and service revenue growths, recording a CAGR of 29.9% and 37.6% from 2003-2021. For the first half of 2022, the revenue and service revenue achieved a YoY growth of 20.2% and 18.9%. 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, and high-tech, the Group maintains a large market share. In the first half of 2022, the service revenue from the top five and top ten customers accounted for 70.5% and 77.5% of the Group’s service revenue.

As of 30 June, 2022, the Group has 196 large customers (customers that contributed to more than RMB6 million of service revenue within the past 12 months).

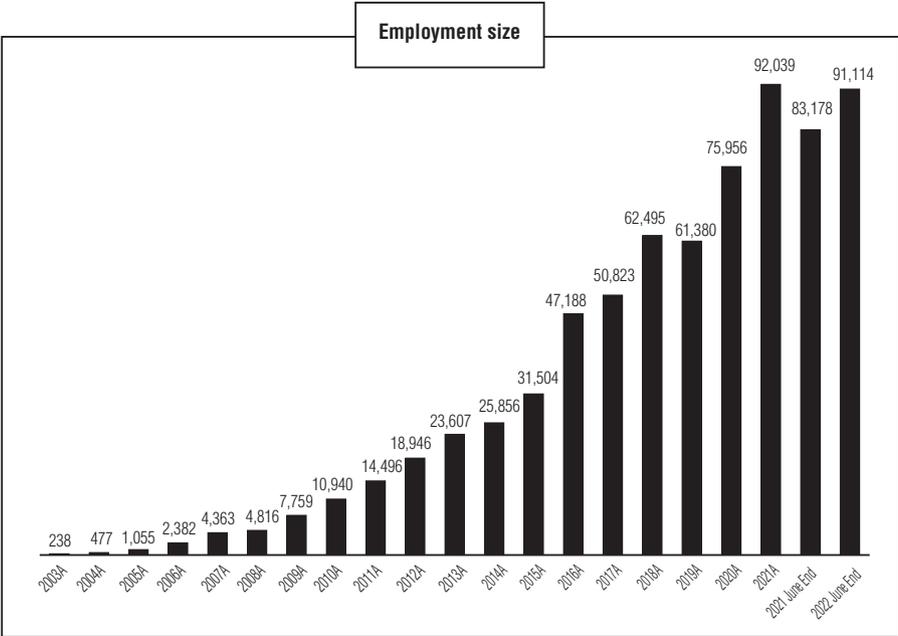
Market

During the reporting period, the Group’s core businesses were concentrated in Greater China, the huge market potential in the Greater China continues to bring growth opportunities for the Group. The Group provides ITS to customers from 47 countries and a number of Top 500 companies in the world, including Tencent, Honor, Alibaba, Ping An, Baidu, China Mobile, China Telecommunication, a global financial institution and a top ICT infrastructure and smart terminal provider in the industry, accumulating experiences in servicing international customers. Going along with the “Belt and Road” initiative, the group will combine product cooperation and industry cooperation with a top ICT infrastructure and intelligent terminal provider in an industry to speed up its global blueprint. Furthermore, the Group will leverage its existing global strategic centers in China, United States, Japan, India, Singapore, Malaysia, etc., to increase cooperation and layout. Lastly, the Group will utilize cloud driven digitalization services to promote global servicing blueprint, become a “global Chinasoft”, and build China’s influence in the global IT market.

Human Resources

As of 30 June, 2022, the Group employs a total of 91,114 employees, representing a YoY increase of 9.5% (2021H1: 83,178).

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



Operating Results

The following is the Group's consolidated comprehensive income statement for the first half of 2021 and 2022 (unaudited):

	2022			2021		
	For the First half RMB'000	% of Revenue	% of Service Revenue	For the First half RMB'000	% of Revenue	% of Service Revenue
Revenue	10,025,275	N/A	N/A	8,340,938	N/A	N/A
Service revenue	9,820,494	N/A	N/A	8,258,599	N/A	N/A
Cost of sales and services	(7,543,550)	(75.2%)	(76.8%)	(6,047,180)	(72.5%)	(73.2%)
Gross profit	2,481,725	24.8%	25.3%	2,293,758	27.5%	27.8%
Other income	188,917	1.9%	1.9%	214,194	2.6%	2.6%
Other gains or losses	20,911	0.2%	0.2%	(6,532)	(0.1%)	(0.1%)
Selling and distribution costs	(511,289)	(5.1%)	(5.2%)	(451,136)	(5.4%)	(5.5%)
Other expenses	(27,473)	(0.3%)	(0.3%)	(23,199)	(0.3%)	(0.3%)
Administrative expenses	(1,445,384)	(14.4%)	(14.7%)	(1,381,478)	(16.6%)	(16.7%)
Finance costs	(51,868)	(0.5%)	(0.5%)	(44,955)	(0.5%)	(0.5%)
Impairment losses under expected credit loss model, net of reversal	(12,995)	(0.1%)	(0.1%)	(15,096)	(0.2%)	(0.2%)
Share of results of investments accounted for using the equity method	(30,627)	(0.3%)	(0.3%)	(8,860)	(0.1%)	(0.1%)
Loss from derecognition of financial assets measured at amortised cost	(1,464)	(0.0%)	(0.0%)	(553)	(0.0%)	(0.0%)
Profit before taxation	610,453	6.1%	6.2%	576,143	6.9%	7.0%
Income tax expense	(39,573)	(0.4%)	(0.4%)	(59,145)	(0.7%)	(0.7%)
Profit for the period	570,880	5.7%	5.8%	516,998	6.2%	6.3%
Profit attributable to Owners of the Company	571,554	5.7%	5.8%	517,724	6.2%	6.3%

Revenue

For the first half of 2022, the Group's revenue was RMB10,025.275 million, representing a YoY growth of 20.2% (2021H1: RMB8,340.938 million). The Group's service revenue was RMB9,820.494 million, representing a YoY growth of 18.9% (2021H1: RMB8,258.599 million). The growth was mainly driven by the steady growth of the core large customer businesses and the rapid growth of cloud intelligence business.

For the first half of 2022, the segment's revenue to total revenue and growth are as follow:

	Six Months Ended 30 June 2022 RMB'000	% of Total	Six Months Ended 30 June 2021 RMB'000	% of Total	Growth Rate
TPG	9,056,975	90.3%	7,374,486	88.4%	22.8%
IIG	968,300	9.7%	966,452	11.6%	0.2%
Total	10,025,275	100%	8,340,938	100%	20.2%

The Group's revenue includes the cloud resource resale business, which is recognized on a net basis. For the first half of 2022, the Group's purchase amount of this business was RMB626.311 million. For the first half of 2022, the Group's revenue was RMB10,025.275 million, after deducting the purchase amount of cloud resources of RMB626.311 million, the total amount before deduction was RMB10,651.586 million.

Cost of Sales and Services

For the first half of 2022, the Group's cost of sales and services was RMB7,543.550 million, representing a YoY increase of 24.7% (2021H1: RMB6,047.180 million). The Group's cost of sales and services was 75.2% of the Group's total revenue, representing a YoY increase of 2.7% (2021H1: 72.5%).

Gross Profit

For the first half of 2022, the Group's gross profit was RMB2,481.725 million, representing a YoY growth of 8.2% (2021H1: RMB2,293.758 million). The Group's gross margin was 24.8%, representing a YoY decrease of 2.7% (2021H1: 27.5%) The Group's gross margin (to service revenue) was 25.3%, representing a YoY decrease of 2.5% (2021H1: 27.8%). The decrease in gross margin was mainly due to the large-scale resurgence of the COVID-19 pandemic during the reporting period and the frequent occurrence of domestic pandemics in multiple locations; at the same time, the company continued to increase its mid-to high-end technical talent pool and rising labor costs, resulting in a decrease in overall gross margin.

Other Income

For the first half of 2022, the Group's other income was RMB188.917 million, representing a YoY decrease of 11.8% (2021H1: RMB214.194 million). The decrease of other income during the reporting period is mainly due to the decrease in government subsidies compared with the same period of the previous year.

Other Gains or Losses

For the first half of 2022, the Group's other gains were RMB20.911 million (2021H1 Other Losses: RMB6.532 million). This is mainly due to fluctuations in the exchange rate of Hong Kong dollar against RMB during the reporting period.

Other Expenses

For the first half of 2022, the Group's selling and distribution expenses were RMB511.289 million, representing a YoY increase of 13.3% (2021H1: RMB451.136 million). The Group's selling and distribution expenses accounted for 5.1% of the total revenue, representing a YoY decrease of 0.3% (2021H1: 5.4%).

For the first half of 2022, the Group's administrative expenses were RMB1,445.384 million, representing a YoY increase of 4.6% (2021H1: RMB1,381.478 million). The Group's administrative expenses accounted for 14.4% of the total revenue, representing a YoY decrease of 2.2% (2021H1: 16.6%). This is mainly due to the decrease in share-based payments during the reporting period as compared to the same period last year.

Finance Costs and Income Tax

For the first half of 2022, the Group's finance costs were RMB51.868 million, representing a YoY increase of 15.4% (2021H1: RMB44.955 million). The Group's finance costs accounted for 0.5% of the total revenue, the same as the period last year.

For the first half of 2022, the loss from derecognition of financial assets measured at amortized cost was RMB1.464 million, representing a YoY increase of 164.7% (2021H1: RMB0.553 million).

For the first half of 2022 the Group's income tax was RMB39.573 million, representing a YoY decrease of 33.1% (2021H1: RMB59.145 million). The Group's effective income tax rate was 6.5%, representing a YoY decrease of 3.8% (2021H1: 10.3%). The decrease in income tax was mainly due to the tax refund generated after the final settlement of income tax during the reporting period.

Other Non-Cash Expenses

For the first half of 2022, the Group's other expenses were RMB27.473 million, representing a YoY increase of 18.4% (2021H1: RMB23.199 million). The Group's other expenses accounted for 0.3% of the total revenue, the same as the period last year.

For the first half of 2022, the Group's impairment losses under the expected credit model, net reversal was RMB12.995 million, representing a YoY decrease of 13.9% (2021H1: 15.096 million).

Working Capital, Financial and Capital Resources

For the first half of 2022, the Group's total available cash balance (the sum of bank balances, cash and pledged deposits) was RMB4,574.691 million (2021: RMB5,578.368 million).

For the first half of 2022, the Group's net current assets were RMB8,627.805 million (2021: RMB9,534.026 million). For the first half of 2022, the current ratio (current assets divided by current liabilities) was 2.7, a slight decrease from 3.4 in 2021.

For the first half of 2022, the Group's borrowings were RMB2,612.035 million (2021: RMB1,938.291 million). Gearing ratio is calculated by dividing the net borrowing amount (borrowing and convertible loan notes minus available cash (bank balance and the sum of cash and pledged deposits)) by total equity. For the first half of 2022, the Group's cash available balance was higher than the sum of borrowings and convertible notes, resulting in a negative net gearing ratio.

Profit for the Period and Earnings Per Share (EPS)

For the first half of 2022, the Group's profit was RMB570.880 million, representing a YoY growth of 10.4% (2021H1: RMB516.998 million). The Group's profit accounted for 5.7% of the total revenue, representing a YoY decrease of 0.5% (2021H1: 6.2%). The Group's profit accounted for 5.8% of the service revenue, representing a YoY decrease of 0.5% (2021H1: 6.3%).

For the first half of 2022, the Group's profit attributable to the owners of the Company was RMB571.554 million, representing a YoY growth of 10.4% (2021H1: RMB517.724 million).

Based on the profit attributable to the owners of the Company, the Group's EPS was RMB19.62 cents for the first half of 2022, representing a YoY increase of 3.7% (2021H1: RMB18.92 cents).

Segment Revenue and Results

For the first half of 2022, the Group's revenue and results growth of each business group is as follows:

	Revenue			Results		
	Six Months Ended 30 June 2022 <i>RMB'000</i>	Six Months Ended 30 June 2021 <i>RMB'000</i>	Growth Rate	Six Months Ended 30 June 2022 <i>RMB'000</i>	Six Months Ended 30 June 2021 <i>RMB'000</i>	Growth Rate
TPG	9,056,975	7,374,486	22.8%	570,817	632,155	(9.7%)
IIG	968,300	966,452	0.2%	117,898	118,292	(0.3%)
Total	10,025,275	8,340,938	20.2%	688,715	750,447	(8.2%)

In terms of segment revenue, TPG's revenue achieved a YoY growth of 22.8%. The growth came mainly from the growth of core customer business including Tencent, Alibaba, Honor, a global financial institution and a top ICT infrastructure and smart terminal provider in the industry. IIG's revenue achieved a YoY growth of 0.2%. In the second half of last year, the Group sold its subsidiary Catapult. Excluding the above impact, the Group's business maintained overall steady growth.

In terms of segment results, TPG's result decreased by 9.7% YoY. This was mainly due to the decrease in the gross profit margin of the business during the reporting period due to the impact of the COVID-19 epidemic. IIG's result decreased slightly by 0.3% YoY, maintaining the same profit margin as the same period as that of last year.

The Group believes that as the Group's cloud intelligence business, which has been deployed for many years, enters a stage of rapid expansion, it will become the driver for the Group's revenue growth and increase in the Group's profit margin.

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 places 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 2022	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\$569 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\$219 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\$86 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\$702 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 2022 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
Revenue	3	10,025,275	8,340,938
Cost of sales and services		<u>(7,543,550)</u>	<u>(6,047,180)</u>
Gross profit		2,481,725	2,293,758
Other income		188,917	214,194
Other gains or losses		20,911	(6,532)
Selling and distribution costs		(511,289)	(451,136)
Other expenses		(27,473)	(23,199)
Administrative expenses		(1,445,384)	(1,381,478)
Finance costs	4	(51,868)	(44,955)
Impairment losses under expected credit loss model, net of reversal		(12,995)	(15,096)
Share of results of investments accounted for using the equity method		(30,627)	(8,860)
Loss from derecognition of financial assets measured at amortised cost		<u>(1,464)</u>	<u>(553)</u>
Profit before taxation		610,453	576,143
Income tax expense	5	<u>(39,573)</u>	<u>(59,145)</u>
Profit for the period		<u>570,880</u>	<u>516,998</u>
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		<u>1,743</u>	<u>3,366</u>
Total comprehensive income for the period		572,623	520,364
Profit for the period attributable to:			
Owners of the Company		571,554	517,724
Non-controlling interests		<u>(674)</u>	<u>(726)</u>
		<u>570,880</u>	<u>516,998</u>

		For the six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
Total comprehensive income attributable to:			
Owners of the Company		573,297	521,090
Non-controlling interests		(674)	(726)
		<u>572,623</u>	<u>520,364</u>
Earnings per share	7		
– Basic (cents)		<u>19.62</u>	<u>18.92</u>
– Diluted (cents)		<u>18.70</u>	<u>17.77</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		(Unaudited) 30 June 2022 <i>RMB'000</i>	(Audited) 31 December 2021 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,193,503	1,220,085
Right-of-use assets		584,234	627,641
Intangible assets		205,380	192,855
Goodwill		843,654	843,654
Investments accounted for using the equity method		728,353	384,641
Equity instrument at fair value		98,513	78,513
Other receivable		26,323	26,565
Pledged deposits		–	5,699
Deferred tax assets		3,011	3,013
		3,682,971	3,382,666
Current assets			
Inventories		171,829	162,631
Trade and other receivables	8	6,935,495	5,894,431
Bills receivable		45,373	42,438
Contract assets		2,039,030	1,740,630
Amount due from related companies		62,310	106,828
Pledged deposits		28,715	16,289
Bank balances and cash		4,545,976	5,556,380
		13,828,728	13,519,627
Current liabilities			
Trade and other payables	9	1,807,811	2,251,585
Consideration payable on acquisition		19,992	–
Bills payable		39,606	56
Lease liabilities		218,520	213,849
Contract liabilities		359,974	410,877
Amounts due to related companies		12,640	10,657
Dividend payable		81	81
Taxation payable		130,264	181,075
Borrowings	10	2,612,035	917,421
		5,200,923	3,985,601
Net current assets		8,627,805	9,534,026
Total assets less current liabilities		12,310,776	12,916,692

		(Unaudited) 30 June 2022 <i>RMB'000</i>	(Audited) 31 December 2021 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		12,799	13,312
Consideration payable on acquisition		–	19,992
Lease liabilities		202,090	235,959
Borrowings	10	–	1,020,870
		<u>214,889</u>	<u>1,290,133</u>
		<u>12,095,887</u>	<u>11,626,559</u>
Capital and reserves			
Share capital	11	138,701	138,703
Share premium		6,223,404	6,293,665
Treasury shares		(553,915)	(588,741)
Reserves		<u>6,265,733</u>	<u>5,760,294</u>
Equity attributable to owners of the Company		<u>12,073,923</u>	11,603,921
Non-controlling interests		<u>21,964</u>	<u>22,638</u>
Total equity		<u>12,095,887</u>	<u>11,626,559</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	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 2021	131,956	4,734,754	(605,387)	(122,769)	(13,834)	(13,045)	148,473	15,793	26,749	257,519	4,192,879	8,753,088	23,323	8,776,411
Profit for the period	-	-	-	-	-	-	-	-	-	-	517,724	517,724	(726)	516,998
Other comprehensive (expenses) income for the period	-	-	-	-	-	3,366	-	-	-	-	-	3,366	-	3,366
Total comprehensive income (expenses) for the period	-	-	-	-	-	3,366	-	-	-	-	517,724	521,090	(726)	520,364
Issue of ordinary shares upon exercise of share-based payments	43	5,521	-	-	-	-	(1,152)	-	-	-	-	4,412	-	4,412
Recognition of share-based payments expenses	-	-	-	-	-	-	125,435	-	-	-	-	125,435	-	125,435
Vesting of share awards	-	4,317	74,960	-	-	-	(79,277)	-	-	-	-	-	-	-
Appropriations	-	-	-	-	-	-	-	-	-	508	(508)	-	-	-
Dividends paid to ordinary shareholders	-	(70,117)	-	-	-	-	-	-	-	-	-	(70,117)	-	(70,117)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(506)	(506)
At 30 June 2021	131,999	4,674,475	(530,427)	(122,769)	(13,834)	(9,679)	193,479	15,793	26,749	258,027	4,710,095	9,333,908	22,091	9,355,999
At 1 January 2022	138,703	6,293,665	(588,741)	(122,769)	(13,834)	(16,027)	283,073	15,793	26,749	286,796	5,300,513	11,603,921	22,638	11,626,559
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	138,701	6,233,404	(553,915)	(122,769)	(13,834)	(14,284)	215,215	15,793	26,749	286,796	5,872,067	12,073,923	21,964	12,095,887

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(798,572)	(526,769)
Net cash used in investing activities	(573,157)	(196,125)
Net cash generated from financial activities	302,897	553,290
Net decrease in cash and cash equivalents	(1,068,832)	(169,604)
Effect of foreign exchange rate changes	58,428	(18,354)
Cash and cash equivalents at the beginning of the period	5,556,380	3,786,777
Cash and cash equivalents at the end of the period	4,545,976	3,598,819

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 2021, except for the adoption of new standards and interpretations effective as at 1 January 2022.

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

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Nature of goods and services		
Provision of services		
Project-based development services	1,026,376	1,169,991
Outsourcing services	8,659,431	7,054,728
Others	134,687	33,800
	<u>9,820,494</u>	<u>8,258,599</u>
Sales of software and hardware products	204,781	82,339
	<u>10,025,275</u>	<u>8,340,938</u>
	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition		
Over time	9,820,494	8,258,599
At a point in time	204,781	82,339
	<u>10,025,275</u>	<u>8,340,938</u>

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	
	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Technical Professional Services Group (TPG)	9,056,975	7,374,486	570,817	632,155
Internet IT Services Group (IIG)	968,300	966,452	117,898	118,292
	10,025,275	8,340,938	688,715	750,447

During the six months ended 30 June 2022, the segment revenue is reported after eliminating inter-segment services revenue of RMB394,772,000 (2021: RMB260,782,000).

Reconciliation of segment results to profit before taxation:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	688,715	750,447
Other income, gains and losses unallocated	26,532	6,533
Interest on borrowings	(15,441)	(16,205)
Corporate expenses	(20,767)	(39,197)
Share-based payment expenses	(68,586)	(125,435)
Profit before taxation	610,453	576,143

Segment revenue by products and services:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of software and hardware products	<u>204,781</u>	<u>82,339</u>
Technical Professional Services Group (TPG)	9,042,704	7,308,234
Internet IT Services Group (IIG)	<u>777,790</u>	<u>950,365</u>
	9,820,494	8,258,599
	<u>10,025,275</u>	<u>8,340,938</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings	42,244	36,052
Interest of lease liabilities	<u>9,624</u>	<u>8,903</u>
	51,868	44,955
	<u>51,868</u>	<u>44,955</u>

5. TAXATION

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Tax charge comprises:		
PRC Enterprise Income Tax	33,451	55,793
Others	<u>6,122</u>	<u>3,352</u>
	39,573	59,145
	<u>39,573</u>	<u>59,145</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 2022, a final dividend of HK\$0.0323 per ordinary share from share premium account of the Company in respect of the year ended 31 December 2021 (2020: HK\$0.029) was declared to the owners of the Company and paid on 21 June 2022. The aggregate amount of the final dividend declared during the six months ended 30 June 2022 amounted to HK\$99,148,317 (2021: HK\$84,265,513).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2022 (2021: 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	
	2022	2021
	RMB'000	RMB'000
Earnings for the purposes of calculating basic earnings per share and diluted earnings per share	<u>571,554</u>	<u>517,724</u>
	Number of shares	
	2022	2021
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>2,913,695,916</u>	<u>2,736,299,877</u>
Effect of dilutive potential ordinary shares:		
Share options	<u>11,883,742</u>	30,881,229
Share award scheme	<u>130,187,530</u>	146,065,293
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>3,055,767,188</u>	<u>2,913,246,399</u>

The computation of diluted earnings per share for the period ended 30 June 2022 and 30 June 2021 assume the exercise of all of the Company's share options granted since the exercise prices of all these share options were lower than the average market price of shares of the Company.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Trade receivables, net of allowance	6,172,147	5,256,303
Advances to suppliers	516,883	406,638
Deposits, prepayments and other receivables, net of allowance	<u>272,788</u>	<u>258,055</u>
	<u>6,961,818</u>	<u>5,920,996</u>
Analysed for reporting purposes as:		
Non-current assets	26,323	26,565
Current assets	<u>6,935,495</u>	<u>5,894,431</u>
	<u>6,961,818</u>	<u>5,920,996</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 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Within 90 days	5,037,987	4,547,394
Between 91 – 180 days	573,881	417,732
Between 181 – 365 days	451,007	210,631
Between 1 – 2 years	<u>109,272</u>	<u>80,546</u>
	<u>6,172,147</u>	<u>5,256,303</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 2022 <i>RMB'000</i>	(Audited) 31 December 2021 <i>RMB'000</i>
Trade payables	592,357	768,297
Other payables	<u>1,215,454</u>	<u>1,483,288</u>
	<u><u>1,807,811</u></u>	<u><u>2,251,585</u></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 2022 <i>RMB'000</i>	(Audited) 31 December 2021 <i>RMB'000</i>
Within 90 days	233,577	428,871
Between 91-180 days	144,827	133,023
Between 181-365 days	130,879	100,324
Between 1-2 years	62,974	82,555
Over 2 years	<u>20,100</u>	<u>23,524</u>
	<u><u>592,357</u></u>	<u><u>768,297</u></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 2022 was approximately equal to the corresponding carrying amount.

10. BORROWINGS

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Unsecured bank loans (<i>Note (i)</i>)	1,537,999	916,411
Secured bank loans (<i>Note (ii)</i>)	<u>1,074,036</u>	<u>1,021,880</u>
	<u>2,612,035</u>	<u>1,938,291</u>
	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Carrying amount repayable:		
Within one year	2,612,035	917,421
Within a period of more than one year but not more than two years	<u>–</u>	<u>1,020,870</u>
	2,612,035	1,928,291
Less: Amounts due within one year shown under current liabilities	<u>(2,612,035)</u>	<u>(917,421)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>1,020,870</u>
	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Total borrowings		
At floating interest rates – under an instalment loan facility (<i>Note (ii)</i>)	1,074,036	1,021,880
At floating interest rates – others (<i>Note (iii)</i>)	350,000	330,000
At fixed interest rates – others (<i>Note (iv)</i>)	<u>1,187,999</u>	<u>586,411</u>
	<u>2,612,035</u>	<u>1,938,291</u>

Other than the loan's which is denominated in Hong Kong dollars as described in Note (ii) 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.
- (ii) During 2020, the Company has raised loans of HK\$1,800 million in two tranches from its loan facility with a group of financial institutions. The loans represent the full amount of commitments under the facility agreement and are repayable by instalments as to 5%, 10%, 15% and 70%, respectively, in July 2021, January 2022, July 2022, and January 2023. The first three instalments of a total of HK\$540 million, accounted for 30% of the loan, was repaid in 2021. The contracted interest rate is the applicable HIBOR plus 1.90% per annum, and the effective interest rates range from 2.90%-2.96% 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.

In addition, the Group is required to pledge a deposit which amounts to RMB7,672,000 and is classified as current as at 30 June 2022. (2021: RMB5,699,000). The Group shall not withdraw any amount from the relevant deposit account, unless with the prior written consent of the facility agent, or for the prepayment or repayment of any loan outstanding, provided that (a) no default is continuing or would result from such withdrawal, and (b) the amount in the deposit account will not fall below the required balance as stipulated in the facility agreement. The required balance represents the aggregate of interest that will accrue on all the loans outstanding for a three-month period.

- (iii) Interests on borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the first half year of 2022 is 3.20% (2021: 3.21%) per annum.
- (iv) Interests on fixed interest rates borrowings are charged at interest rates ranged from 2.50% to 3.50% (2021: 3.32% to 3.55%) per annum.

11. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

		Number of shares	Nominal amount HK\$
Authorised			
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022		4,000,000,000	200,000,000
		<u>4,000,000,000</u>	<u>200,000,000</u>
	Number of shares	Nominal amount HK\$	Amount shown in the financial statements RMB'000
Issued and fully paid			
At 1 January 2021	2,904,707,358	145,235,369	131,956
Exercise of share-based payments	<u>1,000,000</u>	<u>50,000</u>	<u>43</u>
At 30 June 2021	<u>2,905,707,358</u>	<u>145,285,369</u>	<u>131,999</u>
At 31 December 2021 and 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>

12. CAPITAL COMMITMENTS

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
– acquisition of property, plant and equipment	<u>5,060</u>	<u>6,004</u>
	<u>5,060</u>	<u>6,004</u>

In addition, as at 30 June 2022, the Group is committed to contributions of further capital amounting to RMB811,016,000 (2021: RMB128,390,000) 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 2021 and 2022, the Group had the following transactions with the following related parties:

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Provision of IT outsourcing services by the Group	36	–
Provision of IT solution services by the Group	–	198
Provision of other services by the Group	4,351	3,413

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 RMB8,598,009,000 including the directors' emoluments of approximately RMB12,585,000 during the six months ended 30 June 2022 (2021: approximately RMB7,078,528,000, including the directors' emoluments of approximately RMB24,082,000). The increase in employee remuneration resulted from the increase in the number of employees from 83,178 to 91,114.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2022 of the Group amounted to approximately RMB27,473,000 (2021: RMB23,199,000) and approximately RMB220,863,000 (2021: RMB181,941,000), respectively.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2022, 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 2022 to 30 June 2022, except for the following deviations as explained:

- (i) The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1 of the CG Code). Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive 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.
- (ii) The Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2022 in Hong Kong (the “2021 AGM”) (deviated from code provision E.1.2 of the CG Code) due to the quarantine restrictions against COVID-19 outbreak. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2021 AGM;
- (iii) Independent non-executive Directors and other non-executive Directors, as equal Board members should attend general meetings and develop a balanced understanding of the views of shareholders. Some independent non-executive Directors and non-executive Directors of the Company were unable to attend the 2021 AGM, due to the quarantine restrictions against COVID-19 outbreak. Other Board members who attended the 2021 AGM were available to answer questions to ensure effective communication with the shareholders (deviated from code provision A.6.7 of the CG Code).

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings in securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 30 June 2022.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2022, 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 2022
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	10.76%
Tang Zhenming	Beneficial owner and beneficiary of trust	19,027,765 (Note 3)	–	19,027,765	0.62%
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%
Zeng Zhijie	Beneficial owner	–	800,000 (Note 4)	800,000	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 during May 2021 and another 5,600,000 awarded shares were vested during the reporting period and transferred to Dr. Chen during July 2022. 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 during May 2021 and another 1,440,000 awarded shares were vested during the reporting period and transferred to Dr. Tang during July 2022. 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 share options outstanding as at 1 January 2022	No. of share options exercised during the period	No. of share options outstanding as at 30 June 2022	Percentage of total issued ordinary share of the Company as at 30 June 2022	Total No. of underlying ordinary shares interested as at 30 June 2022	Percentage of total issued ordinary share of the Company as at 30 June 2022	Note
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)
Zeng Zhijie	5.65	800,000	–	800,000	0.03%	800,000	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 new 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 2022, none of the Directors or chief executive of the Company had any interests or shorts in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provision of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code, to be Company and the Stock Exchange.

SHARE OPTION SCHEME

As at 30 June 2022, pursuant to the new share option scheme approved by the shareholders at the AGM held on 20 May 2013 (the “New Share Option Scheme”), the share options to subscribe for an aggregate of 63,800,000 Shares granted to certain Directors, employees and suppliers of the Group were outstanding representing 2.08% of the total issued ordinary share capital of the Company as at 30 June 2022. The maximum number of shares which may be issued upon exercise of all options which may be granted at any time under the New Share Option Scheme shall not exceed 10% of the issued share capital of the Company as at the date of approval of the Share Option Scheme (“Scheme Mandate Limit”). The Scheme Mandate Limit was refreshed and approved by the Shareholders at the AGM of the Company held on 18 May 2021 and a total of 290,570,735 shares were issuable under Scheme Mandate Limit as at 30 June 2022, representing approximately 9.47% of the total issued ordinary share of the Company as at the date of 2022 Interim Report.

During the six months ended 30 June 2022, no share options were granted under the New Share Option Scheme. An aggregate of 25,000,000 share options were exercised and no share options were lapsed.

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 2022, a total consideration of approximately HK\$67,000,000 has been used to acquire 7,374,000 shares of the Company from open market by the independent trustee of the Company. During the same period of 2021, no consideration was paid as no shares of the Company were acquired from open market by the independent trustee of the Company.

As at 30 June 2022, 167,511,000 shares (2021 same period: 153,205,000 shares) of the Company were held by the independent trustee of the Company, representing 5.46% (2021 same period: 5.27%) of the total issued ordinary share capital of the Company as at 30 June 2022.

Selected Employee	Granted but not vested as at 1 January 2022	Granted during the period	Vested during the period (Note)	Grant but not vested as at 30 June 2022
Chen Yuhong (Director)	11,000,000	–	5,600,000	5,400,000
Tang Zhenming (Director)	5,760,000	–	1,440,000	4,320,000
Employee	113,589,000	–	22,186,000	91,403,000
	<u>130,349,000</u>	<u>–</u>	<u>29,226,000</u>	<u>101,123,000</u>

Note: The shares vested during the period were transferred to the selected employee after the period end due to the delay of postage caused by the COVID-19 pandemic.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June 2022 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2022 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 2022, 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 2022.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2022, 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)	10.76%
UBS Group AG (<i>Note 2</i>)	Interest of controlled corporations	308,098,930(L)	10.04%
Bank of Communications Trustee Limited (<i>Note 3</i>)	Trustee	167,511,000(L)	5.46%
BlackRock, Inc. (<i>Note 4</i>)	Interest of controlled corporations	145,154,694(L) 768,000(S)	4.73% 0.03%

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 308,098,930 shares in the Company held by its wholly owned subsidiaries. Please refer to Form 2 – Corporate Substantial Shareholder Notice dated 27 April 2022 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 145,154,694 shares and short position of 768,000 shares of the Company held by its wholly owned subsidiaries. Please refer to the Form 2 – Corporate Substantial Shareholder Notice dated 19 May 2022 for further details of the shareholding structure.

Save as disclosed above, as at 30 June 2022, 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 2022, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

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

The Audit Committee comprised three independent non-executive Directors namely Professor Mo Lai Lan as the Chairman of the Audit Committee and Mr. Zeng Zhijie and Dr. Lai Guangrong as the members of the Audit Committee.

The Audit Committee has reviewed the Group's interim result for the six months ended 30 June 2022 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 2022 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 2022, the Company repurchased 28,116,000 of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company before the date of this announcement. The total amount paid for the repurchases of HK\$175,269,980 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\$	
April 2022	18,800,000	6.54	5.72	115,240,020
May 2022	8,050,000	7.00	5.71	50,689,280
June 2022	1,266,000	7.30	7.20	9,160,680
	<u>28,116,000</u>			<u>175,269,980</u>

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 2022, 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 7,374,000 shares of the Company at a total consideration of approximately HK\$67,000,000.

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 2022.

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 2022.

On behalf of the Board

Dr. Chen Yuhong

Chairman and Chief Executive Officer

29 August 2022, 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 three independent non-executive Directors, namely Mr. Zeng Zhijie, Dr. Lai Guanrong and Professor Mo Lai Lan.

* *For identification purposes only*