AsiaInfo
亚信科技

AsiaInfo Technologies Limited
亞信科技控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1675)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of AsiaInfo Technologies Limited (the "**Company**" or "**AsiaInfo Technologies**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Reporting Period**").

ANNUAL RESULTS HIGHLIGHT:

Unless otherwise specified, the profit or loss data mentioned in this announcement are all generated from the continuing operations of the Group.

- Revenue of the software business amounted to approximately RMB5,718.7 million, representing a year-on-year increase of 10.1%.
- Gross profit amounted to approximately RMB2,127.0 million, representing a year-on-year increase of 13.0%.
- Gross profit margin reached 37.2%, representing an increase of 1.1 percentage points as compared with last year.
- Profit for the year amounted to approximately RMB408.8 million, representing a year-on-year increase of 100.2%.
- Adjusted net profit[1] amounted to approximately RMB672.5 million, representing a year-on-year increase of 11.7%.
- Adjusted net profit margin[1] reached 11.8%, representing an increase of 0.2 percentage point as compared with last year.
- A final dividend of HK$0.252 per share was proposed. Annual dividend payout ratio was 40%.

Note 1: To facilitate comparisons of the overall operating performance of the Group in different periods, certain non-recurring, non-cash or non-operating items, which were not indicative of our operating performance, were excluded. Adjusted net profit and adjusted net profit margin from the continuing operations are not measures required by, or presented in accordance with, HKFRS and are unaudited figures. The use of these measures has its limitations as analytical tools, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. Please refer to "MANAGEMENT DISCUSSION AND ANALYSIS — Non-HKFRS Measurement Indicators" for further details.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2019, China ignited the 5G new era and accelerated the pace in 5G network construction and ecological layout. Cloud computing, artificial intelligence ("**AI**"), big data and other information communication technologies had become more and more mature with wider applications. As the enabler of the digital transformation for large enterprises, AsiaInfo Technologies firmly grasped the opportunities in the 5G industries and explored innovatively as well as took the lead in its planning to initiate a new chapter in the 5G development.

During the Reporting Period, the Company continued to adhered to the development strategy of "Three New, Four Abilities" (leveraging its abilities in products, services, operation and integration; actively sourcing new customers, expanding new businesses and exploring new models) and further distinguished its strategic development paths and plans. With the stable progress in the traditional sector and rapid expansion in the emerging business sectors, the Company achieved outstanding performance in business development with continuous profitability enhancement and achieved remarkable results for the whole year.

Following the epidemic outbreak of novel coronavirus pneumonia (COVID-19) in early 2020, the management and all employees of AsiaInfo Technologies made concerted efforts and implemented a series of measures to ensure health and safety and support the epidemic prevention and control. The Company provided full support to the safe, stable and highly efficient operation of the IT systems of operators, developed a "big data platform for epidemic prevention and control", and assisted the government and all sectors of the society in epidemic prevention and control through various big data measures.

On behalf of the Board, I hereby present the annual results announcement of the Company for the year ended 31 December 2019 to the shareholders of the Company (the "**Shareholders**").

OVERALL RESULTS

In 2019, the operating results of the Company achieved a healthy growth with a double-digit growth in both software business revenue and profit. Revenue from the software business for the year increased by 10.1% year-on-year to approximately RMB5,718.7 million, of which, the revenue from the data-driven operation services increase rapidly to approximately RMB151.7 million, representing a year-on-year increase of 83.9%. Profit for the year amounted to approximately RMB408.8 million, representing a doubled increase year-on-year. The adjusted net profit amounted to approximately RMB672.5 million, representing an increase of 11.7% year-on-year, and the adjusted net profit margin was 11.8%, representing a year-on-year increase of 0.2 percentage point, and profitability reached the new high in the recent three years. The use of adjusted net profit from continuing operations is to easily compare the operating performance of the Group in different periods. In view of this, we have excluded the impacts of certain non-recurring, non-cash or non-operating items. Such impacts include the relevant share-based compensation expenses before listing, amortization of intangible assets arising from acquisition, interest expenses from the privatization syndicated loan, exchange gain and loss, and listing expenses. The adjusted net profit and the adjusted net profit margin referred to in this announcement were adjusted pursuant to the principles as set out above.

After taking into full consideration of various factors including Shareholders' returns, profitability, cash flow level and future development capital needs of the Company, the Board decided to propose the declaration and payment of a final dividend of HK$0.252 per share for 2019 according to the dividend payout ratio of 40% of net profit in the financial report.

BUSINESS REVIEW

Continuously reinforcing our leading position in the BSS business operators market and fully supporting the 5G commercial application

In 2019, the Company actively followed the 5G development and IT support strategies of telecom operators and achieved solid progress in its business development in the telecom business support system ("**BSS**") sector, thereby continuously reinforcing our leading position in the operators market. We achieved a stable advance in the implementation of 5G Non-Standalone/Standalone ("**NSA/SA**") dual mode and multi-dimensional converged charging and billing, smart grid, middle office of business and other 5G strategic projects; extensively participated in the IT system transformation and upgrading of operators, and assisted top-level planning. We vigorously expanded into the data domain market and received orders in data collection, big data platforms and machine learning, etc. For the synchronous construction of various large and relatively difficult projects, we successfully completed project delivery and launching, and received high customer recognition. As of 31 December 2019, the Company provided services to 247 telecom operator customers, representing an increase of 15.4% year-on-year, and achieved a customer retention rate of over 99% for years.

Successfully developing 5G OSS intelligent network products and conducting close cooperation with operators

Cloud network integration will be an irresistible trend in the 5G era. To assist operators to accelerate the development of the ability to support the operation in the integration of cloud and network, we firmly seized new opportunities in the operation support system ("**OSS**") sectors brought by the integration of B domain and O domain. While continuously reinforcing our leading position in the BSS domain sector, the Company actively expanded into the 5G OSS domain market. Based on the 5G products and technical concept of "full domain virtualization, full domain intellectualization, full domain perception", we developed the 5G series of products and solutions. In particular, for O domain, we launched products and solutions for the intelligent network and virtualization, including network planning, network optimization, network customer experience management, network management and planning, helping operators to achieve automation and virtualization of network functions and businesses. We continued to deepen collaboration with the research and development ("**R&D**") organizations or provincial companies under the three major operators to carry out 5G pilot cooperation. Based on the commercialized collaboration with operators in 9 pilot locations in the first half of the year, we had currently conducted 17 commercialized collaboration pilot works with operators. In the first year, commercialization of 5G OSS products has flourished in various aspects in the collaboration with the three major operators, taking a solid step in our expansion into the O domain business.

Strong demand for data-driven operation (DSaaS) business with revenue increasing swiftly

The current robust digital economy development is profoundly changing the production modes of all industries. Breakthroughs and application innovation in 5G technology are driving the development of digital economy faster and promoting the digital transformation and upgrading of enterprises. In recent years, we have energetically expanded the data-driven operation ("**DSaaS**") business, namely the data-driven Software-as-a-Service ("**SaaS**") operation services. Leveraging on the abundant compliant data resources, innovative and leading technologies and SaaS-oriented products based on business scenarios (including diversified products such as financial observation cloud, financial marketing cloud, financial risk control cloud, passenger flow monitoring cloud, population management cloud, stock management cloud and site selection services cloud), and adopting charging models of results-based, cooperation-based sharing, SaaS subscription and utility software, we cooperated with operators to carry out precise marketing, and enhanced management to customers in key industries to maximize the value of digitalization. In 2019, the DSaaS business expanded rapidly in the finance, transportation, cable TV and new media, government affairs, police affairs and other industries. In particular, we explored the development in 7 large-scale state-owned commercial banks and local banks, and achieved obvious accelerated business expansion. In 2019, the DSaaS business recorded a revenue of approximately RMB151.7 million, representing a year-on-year increase of 83.9%.

Expanding in vertical industries market and cloud business market enjoying promising prospects

In 2019, the Company accelerated its expansion into vertical industries market outside the telecom industry. Under the wave of enterprises cloudification and transformation, the Company cooperated with major cloud service providers with focus on relevant key industries to demonstrate integration abilities and to provide consultancy, planning and transfer services as well as cloud products to help enterprise customers transfer from traditional structures to cloud structures, and will gradually establish sub-business sectors, such as cloud resale, cloud management, cloud software, cloud value-added services and cloud customer operation and create the AsiaInfo cloud ecosystem. In 2019, the Company actively explored businesses in finance, transportation, postal, energy, retail, government and other key industries, and further expanded its customer base. The Company made successful breakthrough in the transportation sector, expanded highway toll collection projects in Hunan and Guangdong as well as highway big data projects in Yunnan, penetrated into energy and electricity sectors, and expanded power generation enterprises customers such as China Nuclear Power and CGN New Energy Holdings Co., Ltd. on the basis of the original business development with State Grid Corporation of China and China Southern Power Grid to provide them with the 5G scenario-based intelligent production and operation services, and became a core partner of the managed service provider ("**MSP**") cooperation programme of Alibaba Cloud and a certified service solution partner ("**CSSP**") of Huawei Cloud, and carried out strategic cooperation with China Mobile Cloud Centre and other relevant cloud service providers to facilitate enterprises to adopt and apply cloud technology in digital transformation. As of the end of 2019, the Company provided services to 59 large enterprise customers in the non-telecom industries, representing an increase of 55.3% as compared with the end of last year, and achieved a customer retention rate of over 99% for years.

Fully launching 5G series of products with outstanding technological R&D strengths

In the 5G era, the Company attached great importance to enhance our technological R&D strengths and accelerate business and product innovations. In 2019, we continued to increase investments in the R&D of 5G products, created 5G series key products, and conducted successful applications in customers' core business in vertical industries including operators, banks, insurance and power grid, helping customers to cope with the new challenges of 5G value operation era. We further enhanced the R&D middle office strategy and strengthened product R&D centralization management; and through the product R&D middle office, basic technology units could be reused throughout the Company, thereby improving the efficiency in projects delivery and continuing to boost the overall per capita efficiency of the Company. The strategy of the R&D middle office achieved remarkable results.

Working together with industrial partners in deep strategic cooperation and receiving wide recognition in comprehensive strengths

The Company continued to deepen the strategic cooperation in relevant sectors with its partners, and explored development opportunities together to achieve mutual advantage complementation, resources sharing and a win-win collaboration. In 2019, we entered into strategic cooperation agreements with China Mobile Group and China Unicom IoT Co., Ltd., and entered into contracts with China Telecom Group, to jointly promote the development of 5G technology and provide more diversified and multi-layered communication and information infrastructure and digitalized services. We have become a core partner of Alibaba Cloud and Huawei Cloud, and entered into a strategic cooperation agreement with China Mobile Cloud Centre, to jointly provide enterprise customers with rapid, reliable and customized cloud services and facilitate the building of cloud ecosystem. We also entered into strategic cooperation agreements or initiated collaboration with Lenovo Group, Baidu, Hebei Radio and Television Information Network Group, iFLYTEK, Kingdee and Tencent to promote technology innovation and business expansion in different industries.

In 2019, the Company was awarded various honors with increasing industry influence. The honors included the "2019 Most Influential Software and IT Service Enterprises in China" (ranked the 21st, up by 2 places), the "2019 CISIS Best Digitalized Transformation Practice Prize" and the "2019 5G Innovation Pioneer Award". The "Phoenix Tree: Centralized Big Data PaaS Platform" co-developed by the Company had supported China Mobile to win the "Outstanding Use of TM Forum Assets" award. The Company took an active role in the setting of the international technical standard, in which seven international standard proposals submitted to the European Telecommunications Standards Institute (i.e. ETSI) were deliberated and approved, and two standardization projects were submitted to the International Telecommunication Union (i.e. ITU). The Company was elected as a member of the Global System for Mobile Communications Alliance (i.e. GSMA), vice chairman member of the Alliance of Industrial Internet (i.e. AII), vice chairman member of the Internet Society of China and deputy secretary-general member of China Highway Travelling Information Service Alliance (中國公路出行信息服務聯盟). The Company passed the world's highest international certification of Capability Maturity Model Integration Level 5 (能力成熟度模型集成五級) (i.e. CMMI5) for consecutive times.

Fighting against COVID-19 with technology and establishing an emergency service assurance system with big data on epidemic prevention and control

Currently, the whole nation is combating the pandemic of novel coronavirus pneumonia. As one of the high-tech enterprises, we are ready to serve the country and fight against the epidemic with technology. The Company has made enormous efforts to support the secure, stable and efficient operation of the IT systems of major telecom operators, thereby assuring the smooth and stable communication services during the pandemic. Meanwhile, the "big data platform for epidemic prevention and control" developed by the Company has obtained authoritative recommendations from China Academy of Information and Communications Technology ("**CAICT**") and the Open Source Cloud Alliance for Industry (i.e. OSCAR). We launched 16 products and solutions for epidemic prevention and control, including human flow and epidemic trend sensing, visualization of 3D immersive data on sensitive regions and abnormalities monitoring on epidemic susceptive groups to assist the government, operators and vertical industries in epidemic prevention and control and communication assurance. We offer product support and data secured services to precise the formulation and efficient implementation of relevant policies on epidemic prevention and control.

Looking forward

5G is bringing us a new and boundless world, and the era of connecting everything is approaching at an accelerated pace. AsiaInfo Technologies will actively embrace 5G, cloud computing, big data, AI, the Internet of Things and other advanced technologies, and continue to follow the strategy of "One consolidation, Three developments". For traditional businesses, the Company will seize the opportunities of 5G, devise full layout and improve efficiency to reinforce its leading position in the BSS market. For emerging businesses, we will strive to achieve rapid and scalable development in 5G OSS intelligent network, DSaaS data-driven operation services, enterprises cloudification and vertical industries market. We will seek for opportunities in investments and mergers in line with the strategy of the Company vigorously and will expand the business scope and customer base of the Company. At the same time, we will join our business partners to build an ecosystem together to continuously advance the transformation of commercial models and contribute AsiaInfo Technologies' strengths in the data-driven transformation of enterprises and the sustainable development of industries.

Lastly, on behalf of the Board, I would like to express our heartfelt thanks to all Shareholders, our customers and all circles of the society for their support to the Company. I would also like to express our gratitude to all our staff for their relentless efforts and contributions. We will work together to build AsiaInfo Technologies to become a respectable enterprise with pride for staff.

TIAN Suning
Chairman

RESULTS OF THE GROUP

Overview

The Group's key operating performance indicators from continuing operations for the Reporting Period are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**5,721,416**	5,210,977
Include: Software business	**5,718,664**	5,191,963
Network security business	**2,752**	19,014
Gross profit	**2,127,005**	1,882,624
Gross margin	**37.2%**	36.1%
Profit for the year	**408,815**	204,234
Adjusted net profit (unaudited)	**672,537**	602,158
Adjusted net profit margin (unaudited)	**11.8%**	11.6%
Net cash generated from operating activities	**546,305**	583,333

In 2019, the revenue from continuing operations of the Group amounted to approximately RMB5,721.4 million, representing a year-on-year increase of 9.8%, among which, the revenue from the software business amounted to approximately RMB5,718.7 million, representing a year-on-year increase of 10.1%, which achieved another new record high in its growth.

In 2019, the gross profit from continuing operations was approximately RMB2,127.0 million, representing a year-on-year increase of 13.0%, and the gross margin was 37.2%, representing an increase of 1.1 percentage points as compared with last year. Profit for the year amounted to approximately RMB408.8 million, representing an increase of 100.2% as compared with last year. The adjusted net profit amounted to approximately RMB672.5 million, representing a significant increase of 11.7% as compared with last year, and the adjusted net profit margin was 11.8%, representing an increase of 0.2 percentage point as compared with last year, achieving a good profitability level.

In 2019, the net cash generated from operating activities amounted to approximately RMB546.3 million, representing a year-on-year decrease of 6.3%, which was due to the impact from the delay of payment by certain customers caused by their changing to the organizational structure. Despite such decrease, the net cash generated from operating activities still remained at a stable level.

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Continuing operations			
Revenue	*4*	**5,721,416**	5,210,977
Cost of sales		**(3,594,411)**	(3,328,353)
Gross profit		**2,127,005**	1,882,624
Other income	*5*	**103,759**	82,172
(Impairment losses, net of reversal) net reversal of impairment losses under expected credit loss model		**(28,366)**	2,880
Other gains and losses		**(736)**	(102,706)
Selling and marketing expenses		**(461,997)**	(508,402)
Administrative expenses		**(292,586)**	(332,825)
R&D expenses		**(862,419)**	(584,681)
Share of results of associates		**(3,983)**	(1,242)
Finance costs		**(39,907)**	(70,594)
Listing expenses		**—**	(54,096)
Profit before tax		**540,770**	313,130
Income tax expenses	*6*	**(131,955)**	(108,896)
Profit for the year from continuing operations	*7*	**408,815**	204,234
Discontinued operations			
Loss for the year from discontinued operations		**—**	(1,279)
Profit for the year		**408,815**	202,955
Other comprehensive expense for the year:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**—**	(9,367)
Total comprehensive income for the year		**408,815**	193,588

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Profit (loss) for the year attributable to:			
Owners of the Company		**408,815**	204,134
Non-controlling interests		**—**	(1,179)
		408,815	202,955
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**408,815**	194,767
Non-controlling interests		**—**	(1,179)
		408,815	193,588
Profit (loss) for the year attributable to owners of the Company from:			
Continuing operations		**408,815**	205,413
Discontinued operations		**—**	(1,279)
		408,815	204,134
Loss for the year attributable to non-controlling interests from:			
Continuing operations		**—**	(1,179)
Earnings per share			
— Basic (RMB)	*8*	**0.56**	0.32
— Diluted (RMB)	*8*	**0.56**	0.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		**288,261**	300,869
Right-of-use assets		**169,465**	—
Prepaid lease payments		**—**	83,470
Intangible assets		**7,708**	24,021
Goodwill	*9*	**1,932,246**	1,932,246
Investments in associates		**51,033**	55,016
Deferred tax assets		**135,766**	163,292
Pledged bank deposits		**28,612**	635,736
Term deposits		**170,000**	—
Other non-current assets		**39,641**	35,025
Total non-current assets		**2,822,732**	3,229,675
Current assets			
Inventories		**304**	—
Trade and note receivables	*10*	**841,182**	764,909
Prepayments, deposits and other receivables		**183,706**	133,685
Prepaid lease payments		**—**	2,019
Financial assets at fair value through profit or loss		**—**	210,000
Contract assets	*11*	**1,554,521**	1,335,219
Amounts due from related parties		**6,358**	18,934
Pledged bank deposits		**321,246**	481,755
Bank balances and cash		**1,810,591**	1,821,182
Total current assets		**4,717,908**	4,767,703
Current liabilities			
Trade and note payables	*12*	**358,048**	356,316
Contract liabilities	*11*	**296,945**	300,918
Other payables, deposits received and accrued expenses	*13*	**1,922,837**	1,788,004
Amounts due to related parties		**18,092**	47,328
Income tax payable		**244,573**	226,268
Bank borrowings	*14*	**594,372**	1,915,484
Lease liabilities		**36,213**	—
Total current liabilities		**3,471,080**	4,634,318
Net current assets		**1,246,828**	133,385
Total assets less current liabilities		**4,069,560**	3,363,060

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — CONTINUED

AT 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Non-current liabilities			
Deferred tax liabilities		**122,983**	127,541
Lease liabilities		**39,374**	—
Total non-current liabilities		**162,357**	127,541
Net assets		**3,907,203**	3,235,519
Capital and reserves			
Share capital		**—**	—
Reserves		**3,907,203**	3,235,519
Total equity		**3,907,203**	3,235,519

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	Translation reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Other reserve *RMB'000*	Retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2018	8	104,146	285,200	(5,762)	173,845	1,453,987	987,835	2,999,259	19,941	3,019,200
Profit (loss) for the year	—	—	—	—	—	—	204,134	204,134	(1,179)	202,955
Other comprehensive expense for the year, net of tax	—	—	—	(9,367)	—	—	—	(9,367)	—	(9,367)
Total comprehensive (expense) income for the year	—	—	—	(9,367)	—	—	204,134	194,767	(1,179)	193,588
Recognition of equity-settled share-based payments	—	—	—	—	—	155,502	—	155,502	—	155,502
Acquisition of additional equity interests in a subsidiary	—	—	—	—	—	(191,238)	—	(191,238)	(18,762)	(210,000)
Cancellation of shares of the Company upon group reorganization	(8)	—	—	—	—	8	—	—	—	—
Dividend distribution *(Note 15)*	—	—	—	—	—	—	(693,447)	(693,447)	—	(693,447)
Lapse of share options and restricted stock units	—	—	—	—	—	(16,858)	16,858	—	—	—
Capital injection to a subsidiary from retained profits	—	—	—	—	—	11,119	(11,119)	—	—	—
Issue of new shares upon listing	—	791,910	—	—	—	—	—	791,910	—	791,910
Share issuance costs	—	(21,234)	—	—	—	—	—	(21,234)	—	(21,234)
Vesting of restricted stock units	—	22,392	—	—	—	(22,392)	—	—	—	—
Transfer to statutory surplus reserve	—	—	—	—	580	—	(580)	—	—	—
Changes in equity for the year	(8)	793,068	—	—	580	(63,859)	(688,288)	41,493	(18,762)	22,731
At 31 December 2018	—	897,214	285,200	(15,129)	174,425	1,390,128	503,681	3,235,519	—	3,235,519
Effect arising from initial application of HKFRS 16	—	—	—	—	—	—	111	111	—	111
Adjusted balance at 1 January 2019	**—**	**897,214**	**285,200**	**(15,129)**	**174,425**	**1,390,128**	**503,792**	**3,235,630**	**—**	**3,235,630**
Profit for the year and total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**408,815**	**408,815**	**—**	**408,815**
Recognition of equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**233,648**	**—**	**233,648**	**—**	**233,648**
Lapse of share options and restricted stock units	**—**	**—**	**—**	**—**	**—**	**(6,298)**	**6,298**	**—**	**—**	**—**
Issue of new shares upon exercise of the over-allotment option	**—**	**27,162**	**—**	**—**	**—**	**—**	**—**	**27,162**	**—**	**27,162**
Share issuance costs	**—**	**(681)**	**—**	**—**	**—**	**—**	**—**	**(681)**	**—**	**(681)**
Vesting of restricted stock units	**—**	**69,362**	**—**	**—**	**—**	**(69,362)**	**—**	**—**	**—**	**—**
Exercise of share options	**—**	**4,897**	**—**	**—**	**—**	**(2,268)**	**—**	**2,629**	**—**	**2,629**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**—**	**1,822**	**—**	**(1,822)**	**—**	**—**	**—**
Changes in equity for the year	**—**	**100,740**	**—**	**—**	**1,822**	**155,720**	**4,476**	**262,758**	**—**	**262,758**
At 31 December 2019	**—**	**997,954**	**285,200**	**(15,129)**	**176,247**	**1,545,848**	**917,083**	**3,907,203**	**—**	**3,907,203**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**540,770**	313,130
Loss before tax from discontinued operations	**—**	(1,279)
Adjustments for:		
Depreciation of property, plant and equipment	**32,034**	26,577
Depreciation of right-of-use assets	**39,394**	—
Amortization of intangible assets	**18,199**	38,963
Amortization of prepaid lease payments	**—**	2,019
(Gain) loss on disposal of property, plant and equipment	**(337)**	1,771
Loss on disposal of intangible assets	**—**	113
Finance costs	**39,907**	70,594
Net foreign exchange loss	**3,570**	95,928
Interest income from related parties	**—**	(7,770)
Interest income from term deposits	**(4,625)**	—
Bank interest income	**(24,533)**	(26,873)
Interest income from financial assets at fair value through profit or loss	**(4,774)**	(416)
Allowance for trade receivables, net of reversal	**8,841**	6,138
(Net reversal of allowance for) allowance for other receivables, net of reversal	**(4)**	446
Allowance for (reversal of allowance for) contract assets, net of reversal	**19,529**	(9,464)
Share-based compensation expenses	**233,648**	155,502
Share of results of associates	**3,983**	1,242
Operating cash flows before movements in working capital	**905,602**	666,621
(Increase) decrease in inventories	**(304)**	7,100
(Increase) decrease in trade and notes receivables	**(85,290)**	114,919
(Increase) decrease in prepayment, deposits and other receivables	**(62,931)**	40,825
(Increase) decrease in contract assets	**(238,831)**	286,643
Decrease in amounts due from fellow subsidiaries	**12,576**	57,842
(Increase) decrease in other non-current assets	**(4,616)**	11,222
Decrease in amounts due to fellow subsidiaries	**(29,236)**	(60,897)
Increase (decrease) in trade and notes payables	**1,732**	(256,184)
Decrease in contract liabilities	**(3,973)**	(86,995)
Increase (decrease) in other payables, deposits received and accrued expenses	**142,270**	(106,079)
Cash generated from operating activities	**636,999**	675,017
Income taxes paid	**(90,694)**	(91,684)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**546,305**	583,333

CONSOLIDATED STATEMENT OF CASH FLOWS — CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(23,064)**	(65,203)
Purchases of intangible assets	**(1,886)**	(2,645)
Payments for right-of-use assets	**(7,499)**	—
Purchases of financial assets at fair value through profit or loss	**(84,000)**	(210,000)
Net cash outflows on acquisition of a subsidiary	**(584)**	—
Proceeds on disposal of an unlisted equity investment	**—**	3,665
Proceeds on disposal of financial assets at fair value through profit or loss	**298,774**	—
Proceeds on disposal of property, plant and equipment	**738**	—
Repayment from related parties	**—**	10,311
Placement of pledged bank deposits	**(449,295)**	(1,091,109)
Withdrawal of pledged bank deposits	**1,216,801**	550,376
Placement of term deposits	**(170,000)**	—
Interest received	**42,482**	12,578
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**822,467**	(792,027)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(1,310,122)**	(1,168,551)
New bank borrowings raised	**—**	1,236,803
Repayment of lease liabilities	**(40,150)**	—
Proceeds from issue of shares	**27,162**	791,910
Share issuance costs	**(3,010)**	(18,144)
Proceeds from issue of ordinary shares under share option schemes	**1,420**	—
Interest paid	**(41,018)**	(69,041)
Repayment to related parties	**—**	(28,103)
Acquisition of additional interests in a subsidiary	**—**	(160,000)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(1,365,718)**	584,874
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,054**	376,180
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,821,182**	1,450,588
Effect of exchange rate changes	**(13,645)**	(5,586)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (REPRESENTED BY BANK BALANCES AND CASH)	**1,810,591**	1,821,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AsiaInfo Technologies was incorporated in the British Virgin Islands ("**BVI**") as a company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office of the Company is Craigmuir Chambers, Road Town, Tortola, VG1110, British Virgin Islands.

The Company is an investment holding company. The principal activities of the Group are provision of software products and related services in PRC.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

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

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

New and amendments to HKFRSs that are mandatorily effective for the current year — continued

2.1 HKFRS 16 Leases — continued

Definition of a lease — continued

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. The Group recognized lease liabilities of RMB64,393,000 and right-of-use assets of RMB150,005,000 at 1 January 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

New and amendments to HKFRSs that are mandatorily effective for the current year — continued

2.1 HKFRS 16 Leases — continued

As a lessee — continued

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities is 5.6%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	386,086
Less: Lease contracts of which the commencement dates will be effective after 1 January 2019	(281,677)
	104,409
Lease liabilities discounted at relevant incremental borrowing rates	91,301
Less: Recognition exemption — short-term leases	(26,908)
Lease liabilities as at 1 January 2019	64,393
Analysed as	
Current	32,213
Non-current	32,180
	64,393

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16	*(a)*	64,516
Reclassified from prepaid lease payments	*(b)*	85,489
		150,005
By class:		
Leasehold lands		85,489
Buildings		64,516
		150,005

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

New and amendments to HKFRSs that are mandatorily effective for the current year — continued

2.1 HKFRS 16 Leases — continued

As a lessee — continued

(a) The group entities recognized right-of-use assets at the date of initial application for leases previously classified as an operating lease applying HKAS 17. The group entities measured the right-of-use asset at its carrying amount as if the standard had been applied since the lease commencement date, but discounted using the group entities' incremental borrowing rate at the date of initial application.

(b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB2,019,000 and RMB83,470,000 respectively were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *RMB'000*
Non-current Assets			
Prepaid lease payments	83,470	(83,470)	—
Right-of-use assets	—	150,005	150,005
Deferred tax assets	163,292	(12)	163,280
Current Assets			
Prepaid lease payments	2,019	(2,019)	—
Non-current Liabilities			
Lease liabilities	—	(32,180)	(32,180)
Current Liabilities			
Lease liabilities	—	(32,213)	(32,213)
Total effect on net assets		111	
Reserves	3,235,519	111	3,235,630
Total effect on equity		111	

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

New and amendments to HKFRSs and interpretations in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRSs described below, the Directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

Amendments to HKAS 1 and HKAS 8 Definition of Material — continued

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared on historical cost basis, except for certain financial instruments which are measured at fair value, at the end of the Reporting Period.

4. REVENUE AND SEGMENT INFORMATION

The Group's revenue is primarily generated from project-based software development contracts, under which the Group develops software products and provides services at fixed prices and/or variable prices. Revenue is recognized net of sales related taxes.

The Group's operating segments are determined based on information reported to the chief executive officer of the Company, being the chief operating decision maker ("**CODM**") of the Group for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services provided. No operating segments have been aggregated in arriving at the reportable segments of the Group.

The following information disclosed does not include any amounts for the discontinued operations.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Software business:	Representing (1) software products and related services; (2) data-driven operation services; and (3) others, including sale of third-party hardware and software, system integration services, business consulting services and corporate trainings.
Network security business:	Representing provision of network security related software products and services.

The performance obligation of rendering software products and related services is mainly derived from the project-based software development contracts and is satisfied over time which usually range from six months to eighteen months.

The rendering of data-driven operation services is mainly derived from telecom operators' government and enterprise customers with fixed-price contracts to perform data analysis services to analyze customer behavior and operational efficiency. The performance obligation of rendering of data-driven operation services is satisfied over time, ranging from fifteen days to six months.

The performance obligation of sale of third-party hardware and software is satisfied at a point in time when the control of hardware and software is transferred to the customer.

The performance obligation of rendering the network security related software products and services is satisfied over time, generally ranging from six months to eighteen months.

4. REVENUE AND SEGMENT INFORMATION — CONTINUED

Disaggregation of revenue from continuing operations

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
At a point in time	**127,306**	158,685
Over time	**5,594,110**	5,052,292
	5,721,416	5,210,977
Types of goods and services		
Provision of services[(i)]	**5,599,429**	5,066,255
Sales of goods	**121,987**	144,722
	5,721,416	5,210,977
Nature of goods and services		
Software business:		
Software products and related services	**5,329,715**	4,852,159
Data-driven operation services	**151,737**	82,489
Others	**237,212**	257,315
Network security business	**2,752**	19,014
	5,721,416	5,210,977

Notes:

(i) The Group records contract liabilities when receiving consideration from customers prior to its provision of services upon entering into the contracts for rendering of services over the entire contract periods with an average of one year. The transaction price allocated to performance obligations in relation to the non-refundable advance payments that were unsatisfied was amounted to RMB296,945,000 as at 31 December 2019 (2018: RMB300,918,000), representing the contract liabilities included in Note 11.

Respective transaction price allocated to the unsatisfied contracts, representing the contract liabilities, as at 31 December 2018 in the amount of RMB300,918,000 had been recognized as revenue over the contract periods for the year ended 31 December 2019. The management of the Group expects such amount allocated to the unsatisfied contracts as at 31 December 2019 of RMB296,945,000 will be all recognized as revenue for the year ending 31 December 2020.

All services provided and recognized overtime are with fixed-price contracts. The performance obligations of provision of service are satisfied within one year and the transaction price allocated to the unsatisfied contracts is not disclosed.

4. REVENUE AND SEGMENT INFORMATION — CONTINUED

Segment information

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segments:

Year ended 31 December 2019

	Software business *RMB'000*	**Network security business** *RMB'000*	**Total** *RMB'000*
Revenue	**5,718,664**	**2,752**	**5,721,416**
Cost of sales	**(3,591,714)**	**(2,697)**	**(3,594,411)**
Gross profit	**2,126,950**	**55**	**2,127,005**
Other income	**103,759**	**—**	**103,759**
Impairment losses under expected credit loss model, net of reversal	**(28,366)**	**—**	**(28,366)**
Other gains and losses	**(736)**	**—**	**(736)**
Selling and marketing expenses	**(461,997)**	**—**	**(461,997)**
Administrative expenses	**(292,573)**	**(13)**	**(292,586)**
R&D expenses	**(862,419)**	**—**	**(862,419)**
Share of results of associates	**(3,983)**	**—**	**(3,983)**
Finance costs	**(39,907)**	**—**	**(39,907)**
Profit before tax	**540,728**	**42**	**540,770**

Year ended 31 December 2018

	Software business *RMB'000*	Network security business *RMB'000*	Total *RMB'000*
Revenue	5,191,963	19,014	5,210,977
Cost of sales	(3,309,719)	(18,634)	(3,328,353)
Gross profit	1,882,244	380	1,882,624
Other income	82,172	—	82,172
Net reversal of impairment losses under expected loss model	2,880	—	2,880
Other gains and losses	(102,706)	—	(102,706)
Selling and marketing expenses	(508,402)	—	(508,402)
Administrative expenses	(332,709)	(116)	(332,825)
R&D expenses	(584,681)	—	(584,681)
Share of results of associates	(1,242)	—	(1,242)
Finance costs	(70,594)	—	(70,594)
Listing expenses	(54,096)	—	(54,096)
Profit before tax	312,866	264	313,130

4. REVENUE AND SEGMENT INFORMATION — CONTINUED

Segment information — continued

The accounting policies of the reportable segments are the same as the Group's significant accounting policies.

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

No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

Geographical information

The Group's operations are in the PRC. Substantially all revenue from continuing operations of the Group and non-current assets of the Group are generated from and located in the PRC.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the signing parties of the sales or service contracts. During the years ended 31 December 2019 and 2018, there were no sales or service contracts with a signing party located outside of the PRC.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group during the Reporting Periods is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Telecom operator A	**3,353,138**	2,939,607
Telecom operator B	**1,136,023**	1,188,096
Telecom operator C	**1,002,837**	921,111

Note: The customers as shown above are at their group level which aggregates the customer's headquarters, provincial, municipal and specialized companies which enters into contract with the Group individually.

5. OTHER INCOME

Continuing operations

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Government grants	**44,254**	24,527
Bank interest income	**24,533**	26,873
Income from management support services	**12,521**	18,176
Gain from value added tax ("**VAT**") deduction	**9,052**	—
Interest income from financial assets at fair value through profit or loss	**4,774**	416
Interest income from term deposits	**4,625**	—
Interest income from related parties	**—**	7,770
Others	**4,000**	4,410
	103,759	82,172

6. INCOME TAX EXPENSES

Continuing operations

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax ("**EIT**") — Current year	**90,898**	78,685
Deferred tax	**42,956**	30,211
	133,854	108,896
Over provision in prior year:		
PRC EIT	**(1,899)**	—
	131,955	108,896

Under the Law of the PRC on enterprise income tax (the "**EIT Law**") and implementation regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the year ended 31 December 2019 (2018: 25%).

The Group's subsidiaries operating in the PRC are eligible for certain tax credits of 175% (2018: 175%) deduction rates on certain R&D expenses for the year ended 31 December 2019.

6. INCOME TAX EXPENSES — CONTINUED

On 9 August 2012, the Ministry of Industry and Information Technology of the PRC, the Ministry of Finance of the PRC and the State Taxation Administration promulgated and implemented Trial Measures for the Administration over the Certification of Key Software Enterprises and Integrated Circuit Design Enterprises under State Planned Layout, pursuant to which key software enterprises under the state plan layout could go through tax reduction procedures with the competent tax authorities to enjoy preferential tax policies.

During the years ended 31 December 2019 and 2018, two of the Company's subsidiaries, including AsiaInfo Technologies (China), Inc. ("**AsiaInfo China**") and AsiaInfo Technologies (Nanjing), Inc. ("**AsiaInfo Nanjing**"), were identified as the key software enterprises with tax privileges and entitled to a preferential EIT rate of 10%, pursuant to the designation as a key software enterprise within National Programming Layout. Such tax preference was applied and entitled by performing the record filling to the tax authorities on a yearly basis. The Directors consider that AsiaInfo China and AsiaInfo Nanjing will re-apply for such tax preference provided that its business operations will continue to be qualified as key software enterprises.

Pursuant to the EIT Law effective on 1 January 2008, Nanjing AsiaInfo Software Co., Ltd. ("**Nanjing Software**") was designated as "High and New Technology Enterprise" in 2018 for a period up to 31 December 2020, and such qualifications could be re-applied every three years. As a result, Nanjing Software was entitled to a preferential income tax rate of 15% (2018: 15%). In addition, the Ministry of Finance of the PRC and the State Taxation Administration promulgated and implemented Income Tax Policies for Integrated Circuit Design and Software Enterprises (the "**Policies**") in 2011, pursuant to which, all eligible software enterprises that were profit-making up to the year ended 31 December 2017 were to be entitled to two-year EIT exemptions followed by three years' 50% EIT reduction of the statutory EIT rates, starting from their first profit making year. In May 2019, the relevant taxation authority renewed these Policies for the first time to make eligible software enterprises that were profit-making for the year ended 31 December 2018 to be entitled for such preferential EIT rates. Nanjing Software would be applying the EIT exemptions for two year starting from the year ended 31 December 2019 and be entitled to a preferential EIT rate of 12.5% from 2021 to 2023 if the relevant taxation authority takes a decision to renew the Policies in the future. The Directors considered that Nanjing Software had met all the requirements to be eligible under the Policies and it is probable that the tax authority would continue the Policies, and therefore, Nanjing Software had applied 0% EIT rate for the year ended 31 December 2019.

Hangzhou AsiaInfo Cloud Information Technologies Limited ("**Hangzhou Cloud**") was designated as "High and New Technology Enterprise" in 2019 for a period up to 31 December 2021. As a result, Hangzhou Cloud was entitled to a preferential income tax rate of 15% for the year ended 31 December 2019 (2018: 25%).

On 17 May 2019, the Ministry of Finance of the PRC and the State Taxation Administration promulgated and implemented the Policies, pursuant to which, effect from its profit-making year, Hunan AsiaInfo Software Co., Ltd. enjoys EIT exemptions for the next first two years of profit-making starting from 2018 (retrospectively applied in 2018 as it was the first year the relevant taxation authority renewed the Policies), and was entitled to a preferential EIT rate of 12.5% from 2020 to 2022.

According to the relevant tax law in the PRC, dividend distributed to foreign investors out of the profit generated from 1 January 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Detailed Rules for the Implementation of the Regulation.

6. INCOME TAX EXPENSES — CONTINUED

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollar ("**HK$**") 2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2018: 16.5%). The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for 2019 (2018: 16.5%).

Pursuant to the rules and regulations of the BVI, the Company is not subject to any income tax in the BVI.

The income tax expenses for the years ended 31 December 2019 and 2018 can be reconciled to the profit before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

Continuing operations

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**540,770**	313,130
Tax at applicable income tax rate of 10%	**54,077**	31,313
Tax effect of share of results of associates	**398**	124
Tax effect of 175% (2018: 175%) deduction rate on certain R&D expenses	**(25,353)**	(28,747)
Tax effect of expenses not deductible for tax purpose	**47,475**	44,500
Tax effect of income not taxable for tax purpose	**(3,534)**	(12,757)
Tax effect of tax losses not recognized	**51,463**	63,327
Over provision in respect of prior years	**(1,899)**	—
Tax effect of withholding tax on dividend distribution (i)	**16,955**	—
Tax effect of opening deferred tax assets from changed in applicable tax rates	**3,507**	—
Tax effect of different tax rates of subsidiaries not applicable of 10% (2018: 10%) — PRC	**(11,134)**	11,136
Income tax expenses for the year	**131,955**	108,896

Note:

(i) The Group adopted a non-binding general dividend policy with a dividend payout ratio of no less than 40% of its annual distributable net profits in each fiscal year, commencing from the fiscal year ended 31 December 2019, and therefore, the Group had considered the tax effect of withholding tax on dividend distribution with respect to the profit for the year of the Group from continuing operations for the year ended 31 December 2019.

7. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year from continuing operations has been arrived at after charging:		
Staff costs, including Directors' remuneration		
Directors' remuneration	**25,439**	21,638
Employee benefit expenses		
Other staff costs (salaries, wages, allowance, bonus and others)	**3,089,651**	2,885,332
Contribution to retirement benefits scheme	**285,661**	241,889
Share-based compensation expenses	**214,612**	139,078
Total staff costs	**3,615,363**	3,287,937
Cost of inventories recognized as expenses (including in cost of sales)	**118,040**	138,606
Depreciation of property, plant and equipment	**32,034**	26,577
Depreciation of right-of-use assets	**39,394**	—
Amortization of prepaid lease payments	**—**	2,019
Amortization of intangible assets	**18,199**	38,963
Expense of short-term and low value lease	**83,351**	—
Operating lease expenses	**—**	105,443
Auditor's remuneration	**5,508**	12,681

8. EARNINGS PER SHARE

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**408,815**	204,134
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**724,250,326**	629,198,865
Effect of dilutive potential ordinary shares:		
Share options and restricted stock units ("**RSUs**")	**3,292,366**	9,508,736
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**727,542,692**	638,707,601

The calculation of basic earnings per share during the years ended 31 December 2019 and 2018 was based on the profit for the year attributable to the owners of the Company.

8. EARNINGS PER SHARE — CONTINUED

The calculation of the number of shares for the purpose of basic earnings per share during the year ended 31 December 2018 has taken into account share subdivision into 8 shares of HK$0.0000000125 per share as if the new issuance and the share subdivision had been effective on 1 January 2018, the allotment and issuance with regard to the share option scheme and restricted share award scheme on 11 July 2018 and 1 August 2018, respectively and the issuance of shares upon listing on 19 December 2018.

The calculation of the number of shares for the purpose of basic earnings per share during the year ended 31 December 2019 has taken into account the over-allotment to the Company's underwriters in the Company's global offering on 15 January 2019 and the allotment and issuance of ordinary shares with regard to the exercise and vesting of share options and RSUs in 2019.

The computation of diluted earnings per share during the years ended 31 December 2019 and 2018 did not assume the exercise of share options under the 2014 plan and the share options with exercise prices of U.S. dollar ("**US$**") 1.9225 and US$1.2725 under the pre-IPO share option scheme since the exercise prices of those share options were higher than the average market price of the shares of the Company.

9. GOODWILL

The goodwill was primarily arisen from the acquisition of Linkage Technologies International Holdings Limited on 1 July 2010. The carrying value was RMB1,932,246,000 as at 31 December 2019 (2018: RMB1,932,246,000), which is related to the Group's software business.

Impairment testing on goodwill

For the impairment testing, goodwill has been allocated to the Group's cash-generating units which are operating in the software business.

The basis of the recoverable amount of the above cash-generating units and the methodology used for the year are summarized below:

The recoverable amount of the group of cash-generating units has been determined based on a value in use calculation and is valued by the management of the Group with reference to valuations carried out by an independent qualified professional valuer not connected with the Group, which has appropriate qualifications and experience in valuation of similar testing.

The calculation uses cash flow projections based on financial budgets approved by management of the Group covering a five-year period, and at a pre-tax discount rate of 19.5% for the year ended 31 December 2019 (2018: 19.0%). The cash flows of the cash-generating units beyond the five-year period are extrapolated using a 3.0% growth rate considering the relevant industry growth rate forecast and the economic condition of the market and period which does not exceed the long-term average growth rate for the industry. The Directors believe that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows and/or outflows which include budgeted sales and gross profit margin. Such estimation is based on the past performance of the cash-generating units, industry information and management's expectations for the market development, including the fluctuation in the software products and related services business in the current economic environment.

9. GOODWILL — CONTINUED

During the years ended 31 December 2019 and 2018, the management of the Group determines that there is no impairment. The management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

10. TRADE AND NOTES RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**762,456**	757,331
Notes receivables	**101,442**	21,453
Less: allowance for doubtful debts	**(22,716)**	(13,875)
	841,182	764,909

The Group generally grants credit period of 30 days from the dates of acceptance reports when the Group's right to consideration becoming unconditional. The extension of credit period to the customers may be granted on a discretionary basis by considering customer type, the current creditworthiness and the customer's financial condition and payment history with the Group.

Trade receivables relate to a number of independent customers that have a good track record with the Group. The allowance for doubtful debts of the Group is based on the evaluation of collectability and aging analysis of individual trade debts performed by the management of the Group. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer.

Notes receivables are bank acceptance notes, which the management of the Group believes that no allowance is necessary as there is no significant change in credit quality and the balances are considered fully recoverable.

Aging of trade and notes receivables, net of allowance for doubtful debts, based on the dates when the Group has the right to bill, at the end of the years ended 31 December 2019 and 2018 is as follows:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
1–30 days	**517,754**	476,622
31–90 days	**164,928**	154,180
91–180 days	**109,482**	90,212
181–365 days	**37,482**	28,588
Over 365 days	**11,536**	15,307
	841,182	764,909

10. TRADE AND NOTES RECEIVABLES — CONTINUED

Movement in lifetime expected credit loss ("**ECL**") that has been recognized for trade receivables in accordance with the simplified approach set out in HKFRS 9 for the years ended 31 December 2019 and 2018 is as follows:

	ECL (not credit-impaired) *RMB'000*	**ECL (credit-impaired)** *RMB'000*	**Total** *RMB'000*
At 1 January 2018 — restated under HKFRS 9	7,811	1,751	9,562
Allowance on trade receivables	392	5,746	6,138
Written-off as uncollectible	(1,650)	(175)	(1,825)
At 31 December 2018	6,553	7,322	13,875
Allowance on trade receivables	2,367	6,474	8,841
At 31 December 2019	8,920	13,796	22,716

The Group generally provides their customers with one to two years' assurance-type warranty period free of charge as an integrated package in the contracts with no separate performance obligation. As at 31 December 2019, there was no retention held by customers for trade receivables (2018: Nil).

11. CONTRACT ASSETS AND CONTRACT LIABILITIES

The Group has rights to considerations from customers for the provision of the software business and the network security business. Contract assets arise when the Group has rights to considerations for completion of such services and not yet billed under the relevant contracts, and their rights are conditioned on factors other than passage of time. Any amount previously recognized as contract assets are transferred to trade receivables when the rights become unconditional. Remaining rights and performance obligations in a particular contract are accounted for and presented on a net basis, as either a contract asset or a contract liability.

	At 31 December	
	2019 *RMB'000*	2018 *RMB'000*
Analyzed for reporting purposes as follows:		
Contract assets	**1,554,521**	1,335,219
Contract liabilities	**(296,945)**	(300,918)

The contract assets are primarily related to the Group's rights to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of acceptance reports issued by the customers when such right of collections becomes unconditional other than the passage of time.

For the contract liabilities as at 31 December 2019 and 2018, the entire balances were expected to be recognized as revenue during the year ending 31 December 2020 and the year ended 31 December 2019, respectively.

11. CONTRACT ASSETS AND CONTRACT LIABILITIES — CONTINUED

Contract assets and contract liabilities are analyzed and classified as current assets and current liabilities because the contract assets and contract liabilities are expected to be recognized in normal operation cycle.

Movement in lifetime ECL that has been recognized for contract assets in accordance with the simplified approach set out in HKFRS 9 for the year ended 31 December 2019 is as follows:

	RMB'000
At 1 January 2018 — restated under HKFRS 9	19,641
Reversal of allowance on contract assets	(9,464)
At 31 December 2018	10,177
Allowance on contract assets, net of reversal	19,529
At 31 December 2019	29,706

12. TRADE AND NOTES PAYABLES

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**198,188**	238,316
Notes payables	**159,860**	118,000
	358,048	356,316

The table below sets forth, as at the end of the reporting period, the aging analysis of the trade and notes payables presented based on the invoice date:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
1–90 days	**199,152**	175,362
91–180 days	**83,200**	24,848
181–365 days	**13,463**	25,603
1–2 years	**21,001**	77,922
Over 2 years	**41,232**	52,581
	358,048	356,316

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

13. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Accrued payroll and welfare	**1,621,850**	1,624,231
Advance from customers	**183,282**	11,886
Accrued expenses	**54,808**	48,107
Other tax payables	**27,646**	28,998
Accrued liabilities	**13,881**	26,416
Employee reimbursement payable	**12,528**	11,732
Accrued listing expenses and issue costs	**—**	27,218
Other payables	**4,116**	4,753
Others	**4,726**	4,663
	1,922,837	1,788,004

14. BANK BORROWINGS

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Analyzed as:		
Secured bank borrowings carrying interest at variable rates	**594,372**	1,915,484
Analysis of borrowings by currency:		
Denominated in US$	**594,372**	1,503,041
Denominated in HK$	**—**	412,443
	594,372	1,915,484

The Group had bank borrowings denominated in US$ as at 31 December 2019 (31 December 2018: denominated in both US$ and HK$). The Group's bank borrowings are secured by the respective pledged bank deposits as at 31 December 2019 and 2018.

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
The carrying amounts of the above borrowings contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**594,372**	1,915,484

14. BANK BORROWINGS — CONTINUED

Interests on bank borrowings denominated in US$ were at variable interest rates based on three-month London Interbank Offered Rate plus 1.2% to one-month London Interbank Offered Rate plus 1% as at 31 December 2019 (2018: three-month London Interbank Offered Rate plus 1.45% to one-month London Interbank Offered Rate plus 2%).

One of the Group's bank borrowings contain certain restrictive financial covenants. The Group was in compliance with its financial covenants as at 31 December 2019.

15. DIVIDENDS

On 21 May 2018, a dividend in an aggregate amount of US$108,000,000 (equivalent to approximately RMB693,447,000) was declared by the Company and payable to the Company's then sole holding company, AsiaInfo Holdings, LLC ("**AsiaInfo Holding**"), of which approximately US$107,207,000 (equivalent to approximately RMB688,199,000) were settled as at 30 June 2018 through a series of debt restructuring arrangements that the Group carried out in 2018. An aggregated balance of approximately US$793,000 (equivalent to approximately RMB5,248,000) was fully settled on 16 July 2018, offsetting the remaining balance of dividend payable to AsiaInfo Holdings.

Subsequent to the end of the Reporting Period, the declaration and payment of a final dividend in respect of the year ended 31 December 2019 of HK$0.252 (equivalent to approximately RMB0.226) per ordinary share (2018: Nil) has been proposed by the Directors, and is subject to the approval of the Shareholders in the forthcoming annual general meeting of the Company (the "**AGM**"). As the ordinary final dividend would be declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary

AsiaInfo Technologies was established in 1993 and is a leading software product, solution and service provider striving to become the enabler of digitalization transformation for large enterprises. In 2019, by adhering to the strategy of "Three New, Four Abilities" and driven by a business strategy of "One consolidation, Three developments" as the growth driver, the Company recorded fruitful achievements in strategy implementation during the Reporting Period and maintained a stable growth in overall results with a double-digit growth in both software business revenue and profit. The revenue from DSaaS data-driven operation business grew dramatically, and reached approximately RMB151.7 million. The 5G OSS outperformed the expectation with close cooperation with operators to conduct up to 17 commercialized pilot works. The number of large enterprise customers increased significantly and achieved breakthroughs in the cloud MSP business. The Company has become a partner of Alibaba Cloud and Huawei Cloud and entered into strategic cooperation agreements with China Mobile Cloud Capability Centre.

During the Reporting Period, the Company had 247 telecom operator customers, including the headquarters, provincial, municipal and specialized companies and joint ventures of China Mobile, China Unicom and China Telecom, representing an increase of 33 or 15.4% as compared with 2018. The Company had 59 large enterprise customers in the postal, cable TV, financial, energy, government, transportation and automobile industries, representing an increase of 21 or 55.3% as compared with 2018. For consecutive years, the retention rate was higher than 99% for our telecom operators and large enterprise customers.

I. Continuously reinforcing our leading position in telecom BSS market

In 2019, with the official issuance of 5G commercial licences, the telecom industry had fully ignited a new round of investment and construction. Key links such as 5G business innovation, value realization, users experience and large-scale commercialization are closely related to the business support systems. According to the data from the Frost & Sullivan report, the BSS market of PRC telecom operators will exceed RMB15 billion by 2022. During the Reporting Period, the three major operators in China had steadily promoted 5G business support, IT system transformation and upgrading, 5G intelligent operation, mobile number portability and other upgrading and transformation as required under various policies.

The Company actively followed the 5G and IT support strategies of operators and participated in relevant top-level planning of customers on 5G business and IT support, thereby further consolidating its leading position in the operator BSS domain market. For 5G business support, we made orderly advancement in the implementation of the 5G NSA/SA dual mode and multi-dimensional convergent charging and billing, smart grid, middle office of business and other 5G BSS strategic projects. For the IT system transformation and upgrading, we facilitated the completion of the optimization and upgrading of the IT structure for customers and fulfilled the delivery of large-scale projects and programmes of customer groups in different provinces and cities as well as pushing forward the construction projects related to the building of regional centres. For the direction of upgrading and transformation as required in policies, we vigorously participated in the upgrading and transformation of the ability to support mobile number portability by operators. For the direction of 5G intelligent operation, we actively expanded into the data market and received orders in data collection, big data platform and machine learning from various headquarters and provinces.

As of 31 December 2019, the Group provided services to 247 telecom operator customers, representing an increase of 15.4% as compared with last year, and achieved a customer retention rate of more than 99%.

II. Commercialized progress of 5G OSS domain products outperforming expectation in the first year

5G has thoroughly reshaped the wireless network and core network structures. It adopted new technologies such as cloud native and software-defined network. Operators have to upgrade and develop a new-generation of 5G network system to respond the more complicated network management and operation tasks in the 5G era. According to the data from the Frost & Sullivan report, the OSS market size of PRC operators will exceed RMB26 billion cumulatively from 2020 to 2022.

With the official commercialization of 5G in 2019, telecom operators accelerated the upgrading and construction of the new-generation network management system. During the Reporting Period, the Company successfully completed the building of product capabilities in the 5G OSS domain and launched a series of products, such as network planning, network optimization, network customer experience management, network management and planning and had facilitated operators to realize supporting functions in both their business and network. The Company carried out collaboration with three major operators, their provincial companies and R&D organizations, achieving 17 commercialized collaboration pilot works in the first year. The order scale for 5G OSS of the first year exceeded ten millions level and was also favored by various potential customers.

III. DSaaS data-driven operation business enjoying a robust development

Under the era of data-driven industrial transformation, there has been increasing demand for boosting customer value, optimizing customer experience and enhancing operation efficiency in adopting operation data, AI and other new technologies in different industries. In 2019, the PRC government proposed in public that data can participate and distribute as the production factor based on its contribution, in which it will promote the development of the data-driven operation business, and direct enterprises to treasure the data factor more and adopt technical tools to explore the data value.

Relying on innovative and leading technologies and adopting charging models such as results-based, collaboration sharing, SaaS service subscription and utility software, the Company provided data-driven operation DSaaS services to customers in various industries. Through compliant utilization of external desensitized data, self-owned data of customers and the data authorized by the third parties as well as integrating the long-term accumulated operation experience and data analytical models, the Company developed the SaaS-based instrumental products, including the financial insight cloud, financial marketing cloud, financial risk control cloud, police anti-fraud cloud, customer flow monitoring cloud, population management cloud, stock operation cloud, site selection cloud and other diversified products to facilitate customers to achieve data-driven operation under specific scenarios.

During the Reporting Period, the Company's DSaaS business witnessed rapid development with strong demands. We rapidly expanded the businesses in operators, government affairs, police affairs, finance, transportation, cable TV new media and other industries and provided intensive services to China Mobile, China Unicom, China Telecom, ICBC, Agricultural Bank of China, China Construction Bank, Bank of China, Postal Savings Bank of China, Ping An Bank, Harbin Bank, China Life, State Grid Corporation of China and other industrial customers, and expanded our customer base from large enterprises to small-to-medium size enterprises. As of 31 December 2019, revenue from data-driven operation services amounted to approximately RMB151.7 million, representing a year-on-year increase of 83.9%. Business expansion had accelerated its pace.

IV. Continuously expanding into vertical industries market and achieving breakthroughs in the cloud MSP business sector

With the continuous deepening digital transformation of large PRC enterprises, large enterprise customers further accelerated their pace in adopting cloud computing technology. In recent years, capable IT enterprises in vertical industries have established strategic alliances with major cloud service providers as managed service providers (i.e. MSP), so as to provide cloud consultancy planning, cloud transfer, cloud operation and maintenance management and cloud value-added development services and promoted large enterprise customers to adopt cloud computing technology. According to the report data from CAICT, the PRC cloud computing market will reach RMB290 billion by 2022 with a compound annual growth rate of 30% from 2019 to 2024.

During the Reporting Period, the Company further expanded its customer base in vertical industries and became a MSP partner of Alibaba Cloud and Huawei Cloud CSSP to facilitate more customers in those industries to adopt and use cloud computing technology. In the retail sector, we exploited the collaboration with Alibaba Cloud and acquired the enterprise resource planning (i.e. ERP) and e-commerce reshaping project from the large TV shopping enterprises with over 10 million transaction volume. The phase-I stage of the project was successfully completed and launched, laying a foundation for the long-term strategic cooperation with Alibaba Cloud. In the financial sector, we completed the big data projects of CITIC Bank and China Merchants Bank. In the transportation sector, we expanded to the highway toll billing projects in Hunan and Guangdong and the highway big data project in Yunnan. In the government affairs sector, we cooperated with Alibaba Cloud to expand an intelligent urban brain project. In the energy sector, we completed the big data project of State Grid Corporation of China and the big data project on equipment monitoring of China National Offshore Oil Corporation as well as wireless network and command platform projects for nuclear power-related customers. In the postal sector, we successfully delivered the customer relationship management (i.e. CRM) project of China Post.

As of 31 December 2019, the Group provided services to 59 large enterprise customers, representing a year-on-year increase of 55.3%, and achieved a customer retention rate of more than 99%.

V. Fully launching 5G series of products and taking the leading position in technological R&D strengths

With the implementation of the national strategy on "Cyper Power" and imminent 5G commercialization, telecom operators have accelerated the construction of infrastructure for 5G communication technologies. Vertical industries have accelerated its transformation in digitalization, networking and intelligentization by leveraging new 5G technologies and technology innovation enjoys tremendous market potentials.

In 2019, the Company further strengthened the strategy of the R&D middle office and enhanced intensive management on product R&D. Through the product R&D middle office, basic technology units could be reused throughout the Company, thereby improving the efficiency in projects delivery and continuing to boost the overall per capita efficiency in the Company. The strategy of the R&D middle office achieved remarkable results.

During the Reporting Period, the Company continued to increase the investments in 5G product R&D, and created the "X For 5G" series of key products, including 5G full-domain AI products, 5G scenario billing products, 5G network intelligent products, 5G big data products and 5G operation products, etc., helping customers to cope with the new challenges of 5G value operation era. These products have been successfully applied to core business systems for various customers in vertical industries such as the operators, banking, insurance and power grid.

In 2019, the Company passed the international certification of Capability Maturity Model Integration Level 5 (i.e. CMMI5) once again. The seven international standard proposals submitted by the Company to the European Telecommunications Standards Institute (i.e. ETSI) had been reviewed and passed. We also submitted two standardized proposals to the International Telecommunication Union (i.e. ITU), published four outstanding theses at the academic conference on edge computing in China, and devoted contributions to the formulation of international and domestic technical standards.

FINANCIAL OVERVIEW

Summary

In 2019, the Company continued to enhance the implementation of "Three New, Four Abilities" strategic development thinking, and had achieved a good momentum of development and operating results. In 2019, the revenue from continuing operations amounted to approximately RMB5,721.4 million (2018: approximately RMB5,211.0 million), representing a year-on-year increase of 9.8%, among which, the revenue from the software business amounted to approximately RMB5,718.7 million (2018: approximately RMB5,192.0 million), representing a year-on-year increase of 10.1%, with the growth reaching a new high.

In 2019, the gross profit from continuing operations was approximately RMB2,127.0 million (2018: approximately RMB1,882.6 million), representing a year-on-year increase of 13.0%, and the gross margin was 37.2% (2018: 36.1%), representing a year-on-year increase of 1.1 percentage points. The adjusted net profit from continuing operations for the year amounted to approximately RMB672.5 million (2018: approximately RMB602.2 million), representing a significant increase of 11.7% as compared with last year, and the adjusted net profit margin was 11.8% (2018: 11.6%), representing a year-on-year increase of 0.2 percentage point. Profitability has gradually increased.

In 2019, the net cash generated from operating activities amounted to approximately RMB546.3 million (2018: approximately RMB583.3 million), representing a year-on-year decrease of 6.3%, which was due to the impact from the delay of payment by certain customers caused by their changing to the organizational structure. Despite such decrease, the net cash generated from operating activities still remained at a stable level.

Non-HKFRS Measurement Indicators

We believe that indicators such as adjusted net profit from continuing operations provide useful information for investors and others to compare operating performance across different periods and different companies by eliminating the impact of items which are, in the view of our management, not indicative of our business performance. Our management also adopts the same approach to understand and assess our operating results. The impact of adjustments in 2019 was significantly reduced year-on-year and would continue to decline.

The adjusted net profit from continuing operations for 2019 was approximately RMB672.5 million (2018: approximately RMB602.2 million). The following tables reconcile our adjusted net profit from continuing operations for the periods indicated to the profit for the year from continuing operations in accordance with HKFRS:

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Reconciliation of profit for the year from continuing operations to adjusted net profit		
Profit for the year from continuing operations	**408,815**	204,234
Add:		
Share-based compensation	**233,648**	155,502
Amortization of intangible assets due to acquisition	**15,131**	34,295
One-off listing expenses	**—**	54,096
Interest expenses for the Privatization of Syndicated Loan	**11,373**	49,514
Net foreign exchange loss	**3,570**	104,517
Adjusted net profit from continuing operations	**672,537**	602,158

Revenue

In 2019, the revenue amounted to approximately RMB5,721.4 million (2018: approximately RMB5,211.0 million), representing a year-on-year increase of 9.8%, which was primarily due to the increase in revenue from the software business. Such increase was partly offset by the decrease in revenue from the network security business.

Software Business

The revenue from the software business amounted to approximately RMB5,718.7 million in 2019 (2018: approximately RMB5,192.0 million), representing a year-on-year increase of 10.1%, which was primarily due to the continuous increase in revenue from the business of software products and related services and the data-driven operations.

The following table sets forth the breakdown of our revenue from continuing operations by product and service category, both in absolute amounts and as percentages of our total revenue from continuing operations, for the periods indicated:

	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Revenue from continuing operations				
Software business:				
Software products and related services	**5,329,715**	**93.2**	4,852,159	93.1
Data-driven operation services	**151,737**	**2.7**	82,489	1.6
Others	**237,212**	**4.1**	257,315	4.9
Total software business	**5,718,664**	**100.0**	5,191,963	99.6
Network security business	**2,752**	**0.0**	19,014	0.4
Total	**5,721,416**	**100.0**	5,210,977	100.0

The revenue of the software business from the provision of software products and related services amounted to approximately RMB5,329.7 million (2018: approximately RMB4,852.2 million), representing a year-on-year increase of 9.8%. Such increase was primarily due to our continuous expansion of the specialized company customers of telecom operators, and the provision of more professional services to customers by core products upgrade, the use of big data, AI and other capabilities. The revenue of the software business from the provision of software products and related services accounted for 93.2% of the total revenue in 2019 (2018: 93.1%).

In 2019, the revenue of the software business arising from the provision of data-driven operation services amounted to approximately RMB151.7 million (2018: approximately RMB82.5 million), representing a significant year-on-year increase of 83.9%, which was primarily due to the fact that we kept abreast of market changes, quickly upgraded and optimized digital operation series products, and had strong AI and industry scenario design capabilities to provide services for telecom operators, financial and public and political customers. The revenue of the software business from the provision of data-driven operation services accounted for approximately 2.7% of the total revenue in 2019 (2018: 1.6%), representing a year-on-year increase of 1.1 percentage points.

Other revenue of the software business for 2019 amounted to approximately RMB237.2 million (2018: approximately RMB257.3 million), representing a year-on-year decrease of 7.8%, which was primarily due to the change in customer demand for our procurement of third-party hardware and software. In 2019, other revenue of the software business accounted for 4.1% of our total revenue (2018: 4.9%).

Cost of Sales

In 2019, we incurred cost of sales of approximately RMB3,594.4 million (2018: approximately RMB3,328.4 million), representing a year-on-year increase of 8.0%. After excluding share-based compensation expenses, the cost of sales in 2019 was approximately RMB3,509.2 million (2018: approximately RMB3,277.3 million). The increase in cost of sales was mainly due to the increase in direct implementation costs of projects such as labor costs and travelling expenses resulting from the expansion of the current business scale.

Gross Profit and Gross Margin

In 2019, the gross profit was approximately RMB2,127.0 million (2018: approximately RMB1,882.6 million) and the gross margin was 37.2% (2018: 36.1%). The increase in gross margin in 2019 reflected both our continuous strategic results in the product R&D of middle office as well as our enhanced project management and continuous efficiency improvement in project execution and delivery.

Selling and Marketing Expenses

In 2019, the selling and marketing expenses amounted to approximately RMB462.0 million (2018: approximately RMB508.4 million), representing a year-on-year decrease of 9.1%. After excluding share-based compensation expenses and amortization of intangible assets due to acquisition, selling and marketing expenses for 2019 amounted to approximately RMB397.2 million (2018: approximately RMB439.0 million), which was primarily due to our continued improvement in the intensive management of marketing activities, improved marketing efficiency and labor cost savings.

Administrative Expenses

In 2019, the administrative expenses amounted to approximately RMB292.6 million (2018: approximately RMB332.8 million), representing a year-on-year decrease of 12.1%. After excluding share-based compensation expenses, administrative expenses in 2019 amounted to approximately RMB237.1 million (2018: approximately RMB284.7 million), which was primarily due to our continued improvement in intensive management, improved efficiency in functional management and labor cost savings.

Research and Development Expenses

In 2019, the R&D expenses amounted to approximately RMB862.4 million (2018: approximately RMB584.7 million), representing a year-on-year increase of 47.5%. After excluding share-based compensation expenses, the R&D expenses in 2019 amounted to approximately RMB819.1 million (2018: approximately RMB563.5 million), and accounted for 14.3% of the total revenue, which is in line with historical average level. R&D expenses were fully-expensed according to the Group's accounting policies. Our R&D focuses on Company's strategy, facing customer's continuous business support needs and market changes brought about by 5G during digital transformation, we actively responded to further improve the standardization capabilities of products in the general technology platform sector, and continued to increase 5G-related products, digital operation service products and big data as well as investment in R&D of AI products.

Income Tax Expenses

In 2019, the income tax expenses amounted to approximately RMB132.0 million (2018: approximately RMB108.9 million), of which, withholding income tax accrued for declaring final dividends was approximately RMB17.0 million (2018: Nil), which was mainly due to a year-on-year increase in income tax expenses in 2019. After excluding withholding tax, effective income tax rate calculated based on the adjusted profit before tax was 14.3%, representing a decrease from 15.3% in 2018.

Profit for the year

In 2019, profit for the year from continuing operations amounted to approximately RMB408.8 million (2018: approximately RMB204.2 million), representing a year-on-year increase of 100.2%. Such increase was primarily due to the increase in revenue from our business expansion in 2019 and reduced impacts from non-operational items.

FINANCIAL POSITION

Net Current Assets

The net current assets as of 31 December 2019 was approximately RMB1,246.8 million (31 December 2018: approximately RMB133.4 million), representing a year-on-year increase of 834.8%. The change was mainly due to the combined effects of repayment of some bank borrowings under the repayment plan in 2019 and the release of bank deposits that were recorded as non-current pledged bank deposits on 31 December 2018. As of 31 December 2019, the Company had sufficient working capital and its net current assets had improved significantly.

Trade and notes receivables

The trade and notes receivables represented outstanding trade and notes receivables from our customers for the purchase of our products or services. On 31 December 2019, trade and note receivables amounted to approximately RMB841.2 million (31 December 2018: approximately RMB764.9 million), representing a year-on-year increase of 10.0% and growing accordingly as the business scale expands. Meanwhile, the turnover days of trade and notes receivables decreased to approximately 51.2 days (2018: approximately 57.9 days).

Contractual assets and contractual liabilities

Contractual assets represented our rights to receive consideration for contract work completed and not yet billed, which was because such rights are conditioned on our future performance in achieving specific contract milestones. Contractual assets are transferred to trade receivables when the rights to receive consideration become unconditional, usually on the date of issuance of acceptance reports by our customers. The remaining rights to receive consideration or performance obligations under a particular contract are accounted for and presented on a net basis, either as contractual assets or as contractual liabilities.

On 31 December 2019, contractual assets amounted to approximately RMB1,554.5 million (31 December 2018: approximately RMB1,335.2 million), representing a year-on-year increase of 16.4%. On 31 December 2019, contractual liabilities amounted to approximately RMB296.9 million (31 December 2018: approximately RMB300.9 million), representing a year-on-year decrease of 1.3%. Changes in contractual assets and contractual liabilities were primarily due to the expansion in our business scale and continuous improvement of project development progress management.

Goodwill

As at 31 December 2019, our goodwill amounted to approximately RMB1,932.2 million (31 December 2018: approximately RMB1,932.2 million), which was derived from the business combination completed in 2010. During the Reporting Period, no indication for impairment of goodwill was identified, and we did not record any goodwill impairment loss.

Trade and notes payables

The trade and notes payables represented outstanding trade and notes payables to third-party hardware and software suppliers and outsourcing service providers. As at 31 December 2019, the trade and notes payable amounted to approximately RMB358.0 million (31 December 2018: approximately RMB356.3 million), on par with last year, while turnover days of the trade and notes payables decreased to approximately 36.3 days (2018: approximately 53.1 days), which were affected by business scale expansion.

Indebtedness and Contingencies

As of 31 December 2019, we had total borrowings of approximately RMB594.4 million (2018: approximately RMB1,915.5 million), which was mainly due to repayment of bank loans during the Reporting Period, representing a year-on-year decrease of 69.0%. Accordingly, the gearing ratio[1] decreased to 15.2% (2018: 59.2%).

As of the date of this announcement, save as disclosed in this announcement, we did not have any plan for material external debt financing, and nor there was any outstanding debt securities, charges, mortgages, or other similar indebtedness, leasing commitments, guarantees or other material contingent liabilities.

Cash Flow

Our business is capable of maintaining a healthy cash flow level. The net cash generated from operating activities of the Group in 2019 amounted to approximately RMB546.3 million (2018: approximately RMB583.3 million), representing a year-on-year decrease of 6.3%. This was primarily attributable to the delay in payment due to the internal adjustment of individual customers, which caused a slight decline in project receipts.

The net cash generated from investing activities in 2019 was approximately RMB822.5 million, which was mainly due to the release of mortgaged bank deposits. In 2018, we recorded a net cash used in investment activities of approximately RMB792.0 million, which was mainly due to increased mortgage bank deposits for the replacement of bank borrowings.

The net cash used in financing activities in 2019 was approximately RMB1,365.7 million. Such cash outflow was mainly due to repayment of bank loan. In 2018, we recorded a net cash generated from financing activities of approximately RMB584.9 million. Such cash inflow was mainly due to the proceeds from the issuance of new shares in the global offering of the Company.

Note 1: Gearing ratio was calculated by dividing total bank borrowings by total equity and multiplied by 100%.

USE OF NET PROCEEDS FROM LISTING

Our shares were listed on the Main Board of the Stock Exchange on 19 December 2018. The net proceeds raised during the period of initial public offering (after deducting the underwriting commission and the issuance expenses from listing and prior to the exercise of the over-allotment option in January 2019) was approximately HK$871.1 million. Due to the issuance and allotment of over-allotment shares pursuant to the partial exercise of over-allotment options on 15 January 2019, additional net proceeds of approximately HK$30.5 million were raised. The proposed use of the net proceeds was in line with those disclosed in the prospectus of the Company dated 6 December 2018.

The following table sets out the detailed information of the Group's proceeds that were utilized as of 31 December 2019:

	Approximate percentage of total amount	**Proceeds from initial public offering** *HK$'000*	**Proceeds utilized as of 31 December 2019** *HK$'000*	**Proceeds not yet utilized as at 31 December 2019** *HK$'000*
Enhance our R&D capabilities and expand data-driven operation services, internet of things and 5G network intelligence businesses	35%	315,547	315,547	—
Repayment of bank loans	30%	270,469	270,469	—
Strategic investments and acquisition	25%	225,391	—	225,391
Working capital and other general corporate purpose	10%	90,156	90,156	—
Total	100%	901,563	676,172	225,391

FINAL DIVIDEND

The Board proposed to declare a final dividend of HK$0.252 per share for the Reporting Period (2018: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had a total of 13,239 full-time employees (2018: 12,332). The Group strives to align the remuneration level of its employees with market level, so as to maintain competitiveness. The remuneration of our employees is subject to the remuneration and bonus policy of the Group, and determined in accordance with the performance of each staff. The Group also provides comprehensive benefit packages and career development opportunities to our employees, including insurance benefits etc. Internal and external training programs are provided according to the change in the industry, technological updates and needs of employees. Further, the Group has in place the pre-IPO share option scheme, post-IPO share option scheme and pre-IPO share award scheme and adopted a new share award scheme on 7 January 2020. Further information of the share option schemes and share award schemes will be available in the annual report of the Company for the Reporting Period.

CLOSURE OF THE REGISTER OF MEMBERS

The Company will hold its upcoming AGM at 10:00 a.m. on Thursday, 28 May 2020. The register of members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 22 May 2020.

The record date for qualifying to receive the proposed final dividend is Friday, 5 June 2020. In order to determine the right of the Shareholders entitled to receive the proposed final dividend, which is subject to the approval of the Shareholders in the AGM, the register of members of the Company will also be closed from Wednesday, 3 June 2020 to Friday, 5 June 2020, both days inclusive. All properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 2 June 2020. The final dividend, if approved, will be payable on or around Wednesday, 24 June 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. The Company has applied the principles of the CG Code on the Company's corporate governance structure and operation, and had complied with all applicable code provisions of the CG Code for the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she had complied with the required standards as set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus or COVID-19 in China and the subsequent quarantine measures imposed by the Chinese government in early 2020 have had a certain temporary impact on the operations of the Group since 2020. The degree of the impact depends on the progress and duration of epidemic prevention and control and the implementation of local prevention and control policies.

At present, the Group's operation is generally stable. The Directors will continue to pay close attention to the development of the COVID-19 epidemic situation, assess and react actively to its impacts on the financial position and operating results of the Group.

AUDIT COMMITTEE

The audit committee of the Company had, together with the management and external auditor of the Company, reviewed the accounting standards and practices adopted by the Group and the audited financial results of the Group for the Reporting Period.

PUBLICATION OF THE ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.asiainfo.com). The annual report and the audited financial report for the Reporting Period will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
AsiaInfo Technologies Limited
TIAN Suning
Chairman and Executive Director

Hong Kong, 23 March 2020

As at the date of this announcement, the Board comprises Dr. TIAN Suning, Mr. DING Jian and Mr. GAO Nianshu as executive Directors, Mr. ZHANG Yichen, Mr. XIN Yuesheng and Mr. ZHANG Liyang as non-executive Directors and Dr. GAO Jack Qunyao, Dr. ZHANG Ya-Qin and Mr. GE Ming as independent non-executive Directors.