# ChinaSoft International (0354.HK)

## 2011 Annual Investor Presentation

March 2012

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# Agenda

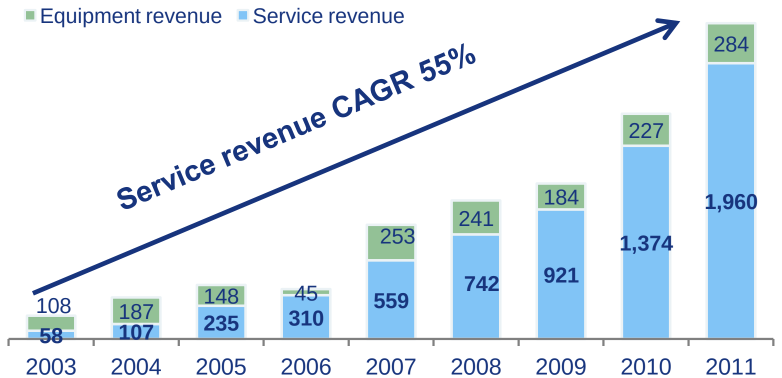
# Snapshot of ChinaSoft International

| | |
|---|---|
| **Service Offering** (% of service revenue[1]) | IT Consulting and Solutions (47.5%)<br>IT Outsourcing (49.0%)<br>Others (3.5%) |
| **Vertical Coverage** (% of service revenue[1]) | Government & Manufacturing (24.6%)<br>BFSI(18.0%)<br>Telecommunications (27.0%)<br>Technologies (26.9%)<br>Others (3.5%) |
| **Service Locations** (% of service revenue[1]) | 21 cities in China (71.8%)<br>US, UK, Japan and other (28.2%) |

## Headcount


## Total Revenues

*(In RMB mm)*




Equipment revenue as % of total

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| 65% | 64% | 39% | 13% | 31% | 25% | 17% | 14% | 13% |

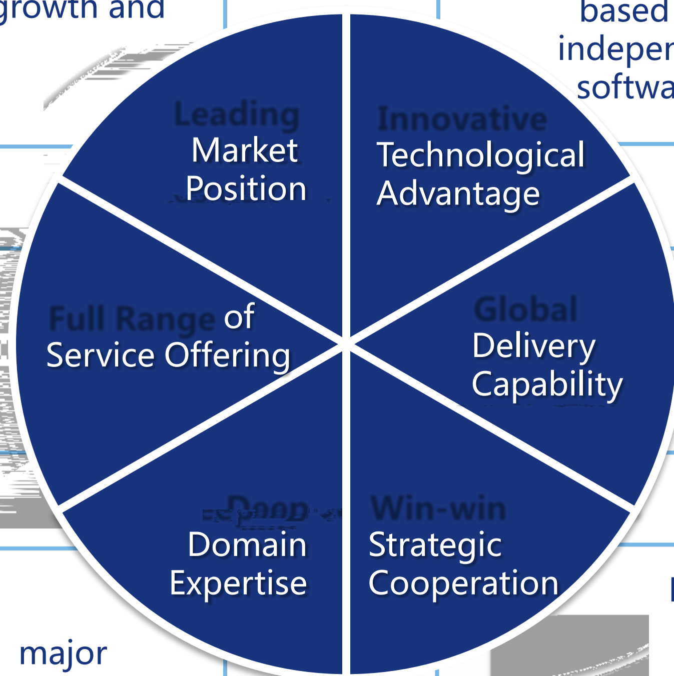
[1] For the 12 months ended 12/31/2011

# Business Development History

# Core Strength

Putting equal emphasis on organic growth and M&A to be the
in fast-growing China market

middleware platform
based on SOA and cloud computing, with independent IP rights, provides application software for industry solutions for various verticals




Covering IT Consulting, Solutions and Outsourcing services

Integrated & differentiated services

Sales & Delivery Centers located
in cities worldwide
With global delivery capability

Leveraging deep domain expertise
Serving thousands of customers in major verticals

Multi-dimensional relationship with
,
and achieve win-win cooperation by sharing of customer resources

# Agenda

1. Company Background
2. **2011 Annual Financial Highlights**
3. Business Review and Development
4. Future Outlook
5. Appendix

# Key Financial and Operating Data

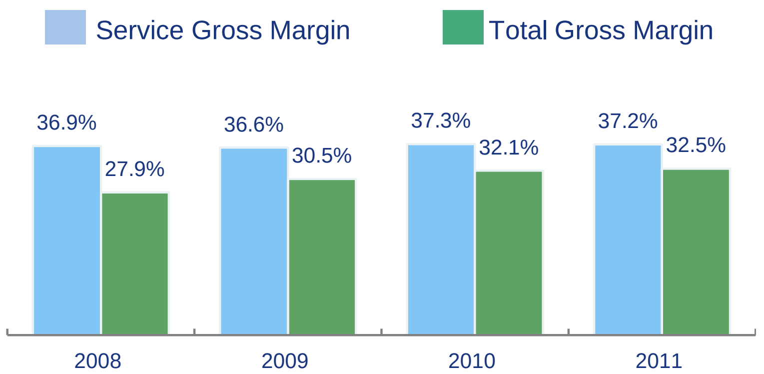
| | 2011 | 2010 | Growth% |
|---|---|---|---|
| Revenue | **2,243,754** | 1,601,211 | 40.1% |
| Service Revenue | **1,959,885** | 1,374,424 | 42.6% |
| Gross Profit | **729,491** | 513,204 | 42.1% |
| Segment Results | **218,589** | 166,539 | 31.3% |
| EBITDA | **293,184** | 200,836 | 46.0% |
| Non-GAAP Operating Profit* | **323,380** | 233,687 | 38.4% |
| Non-GAAP Net Profit** | **155,732** | 115,461 | 34.9% |
| **Non-GAAP EPS **: RMB 0.1076** | | | |

* Non-GAAP Operating Profit represents EBITDA excluding share option expenses, net foreign exchange loss(gain) and allowance for doubtful debts.

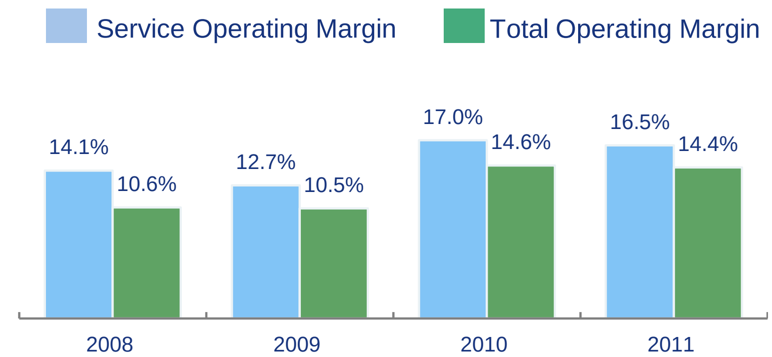
** Excluding P shares valuation , Impairment loss on goodwill ,Gain arising from FV changes of contingent consideration payable on acquisition of business, and Loss on deemed disposal of associates.

# Key Financial and Operating Ratio

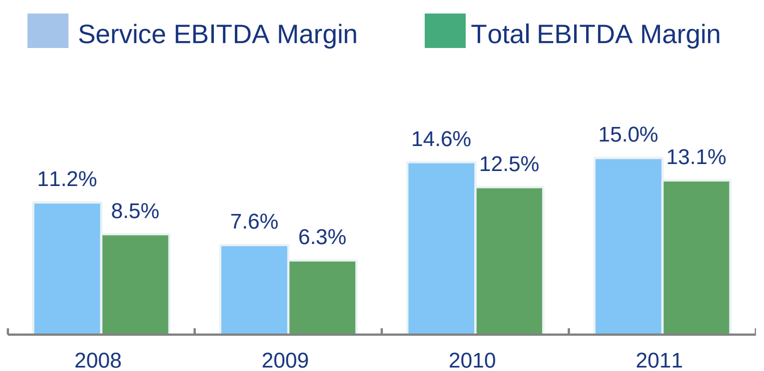
## Gross Margin



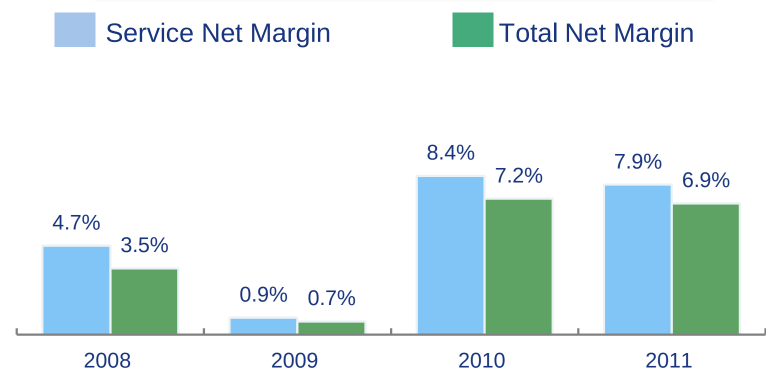

## Non-GAAP Operating Margin




## EBITDA Margin




## Non-GAAP Net Margin



# Financial and Operating Ratio Analysis

# Segment Revenues and Results

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| G&M | | 471,820 | 54.1% | **579,534** | 364,431 | 59.0% | | 36,997 | 47.5% |
| BFSI | | 392,059 | 24.5% | **351,554** | 272,661 | 28.9% | | 36,168 | 20.6% |
| IT Outsourcing | | 682,917 | 40.5% | **959,458** | 682,917 | 40.5% | | 85,596 | 29.2% |
| Training | | 54,415 | 27.4% | **69,339** | 54,415 | 27.4% | | 7,778 | 25.7% |
| | | 1,601,211 | 40.1% | **1,959,885** | 1,374,424 | 42.6% | | 166,539 | 31.3% |

* Segment results represent the profit earned by each segment without allocation of impairment loss recognized in respect of goodwill, corporate expenses, share-based payment, gain arising from changes in fair value of contingent consideration payable on acquisition of a business, loss arising from changes in fair value of redeemable convertible preferred shares, interest charge on convertible loan notes and certain items of other income, gains and losses recorded at corporate level.

# Customers Analysis

## Top Customers Concentration


## Customer Analysis

For the 2011, the service revenue from the **top 5 customers** accounted for **38.4%** of the total service revenue.

For the 2011, the service revenue from the **top 10 customers** accounted for **43.7%** of the total service revenue.

With continuous development of new customers and intensive tapping of existing customers in the vertical industries, it is expected that the top customers concentration will further decline.

There were **855 active customers** for 2011, of which **320 were new customers**.

For 2011, the Group had **58 customers** from which **over RMB 6,000,000** of service revenue had been derived.

# Agenda

1 Company Background

2011 Annual Financial Highlights

pendix

## Government & Manufacturing

**Audit:** continues to be leading vendor. The Golden Auditing Project has been reaching its peak, and our new businesses, such as in auditing and BPO service, had established their preferable market condition; formal launch of products such as Networking Audit System and Audit Management System.

**Finance:** awarded the tender from the Ministry of Finance for the government procurement management system project, and is undertaking the construction of core financial business , and businesses cover many provinces and cities in the mid and south of China.

**Environment:** awarded the tender from the Ministry of Environmental Protection for the emission reduction application system supporting platform and system integration project, as well as the underground water environmental base condition inspection information system.

**Tobacco:** awarded the tender for MES projects in the tobacco industry, and the leading position in the industry has been established.

**Coal:** awarded the tender for the IT planning project of Taiyuan Branch, China Coal Technology and Engineering Group Corp to develop new industrial customers.

## BFSI

**Bank:** The deficiency-free start-up of the new generation of Shanghai Bank credit card system and the successful start-up of the card system of Ping An Bank received high appreciation from the customers; Certain scope of outsourcing revenues were generated from HSBC, Ping An and China Union pay, indicating the rise of end-to-end service in the financial industry.

**Insurance:** has successfully signed with CPIC Life on national data centralization project, offering support and services for the national business integration for the customer; officially launched its own IP products, eg. TOP FXGL Risk Management Information Software.

**Transportation:** awarded the tender for railway traffic ticketing systems in Wuxi, Ningbo, Shanghai and Tianjin, which has successfully extended the project application and explored new cities; Official startups of Chongqing MTR ACC System; the Qingdao Pass Electronic Toll Colletion Project has successfully passed its trial run.

**Public Service:** has obtained the third party payment licenses from the China Central Bank with PayPass to be directly involved in the payment business, so as to achieve the transformation in the layout of the financial operating services business.

## Telecommunications

**With Telecom Operators:**

Has signed the contract with China Mobile on the convenience card platform construction project in a successful involvement in mobile payment platform market; following the phone wallet project by Shanghai Mobile.

Has signed a strategic cooperation agreement with Shanghai Mobile, to jointly promote innovation and business maturity for technology, products, and model of the mobile e-commerce industry, and strengthen market development.

**With Telecom Equipment Providers:**

Continues to remain the strategic partnership with Huawei, becoming its largest supplier of Xi'an branch, and has achieved outstanding performance in its supplier appraisal ranking.

Has cooperation with Huawei, by providing Rich Communication Suite services to foreign telecom operators, bringing the expansion of telecom products into the overseas market.

Has become the only supplier of annual outstanding enterprises among all TD software vendors.

## High Technology

**Customer relationships remain stable, with sustained growth in business volume**

Has become the fastest growing Chinese supplier of Microsoft, the largest supplier of MSIT in China as well as the first Chinese Top 10 MSIT supplier out of 3000 suppliers of Microsoft; signed a development and test agreement with Microsoft GFS.

Has successful signed with GE strategic customers a three-year Oracle ERP operation and maintenance services contract in China and the United Kingdom.

**Continues to build high-end service capabilities, and develop new business direction and customer**

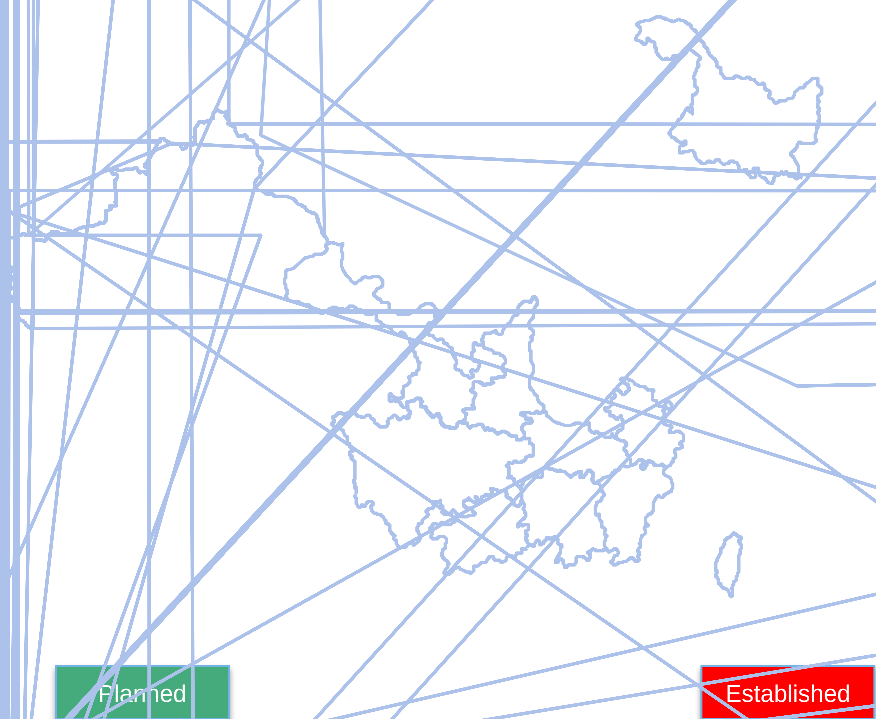
Has successfully developed Managed Service business, by completing the first infrastructure management services project (construction of a data center for a world-renowned financial institution), and successfully come to the negotiation of the second phase project;

Has successfully developed outsourcing business for a well-known ERP software vendor in China by expanding the business development in the enterprise application services (EAS).

Has successfully signed a contract with a Global 500 company on financial process outsourcing business, making a breakthrough in the high-end BPO in the financial field.

# Strong and differentiated human supply platform

## Nationwide Training Centers




## Superior Talent Management

The Group collaborates with universities and educational institutions. The training business achieved profitability growth as well as ensuring talents supply to the company, training more than **35,000** students annually.

During the period, 41 new schools were signed for deep cooperation (total: 59), 27 of which were jointly built schools/departments (total: 36).

Has participated in the "Excellence Engineers the Ministry of Education, and Practical Education Center";

and is promoting them to the universities with deep cooperation.

# Win-win Strategic Cooperation

Hony Capital is major shareholder of CSI

CSI will be the major IT service provider for the Hony

CSI will become the integration platform for Hony

1st

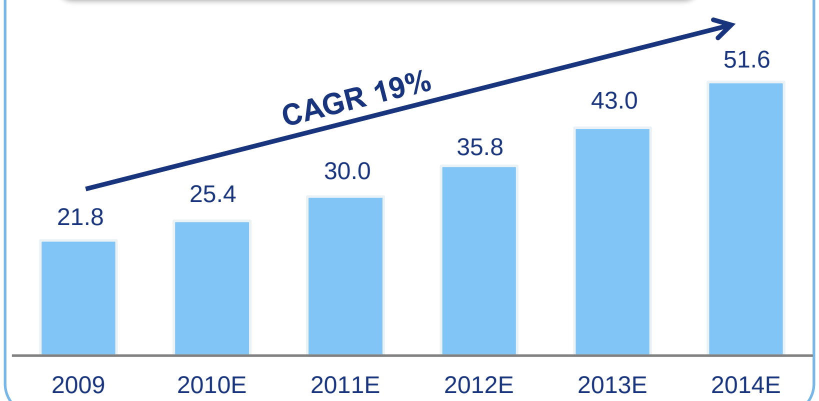
One of top three suppliers in IT outsourcing; With services offering covering ten product lines in ten R&D base of Huawei; 1st place in Huawei business CMMI appraisal

End-to-end service offering to form a multi-dimensional relationship; Helping Huawei winning business with our solutions and selling our solutions to clients

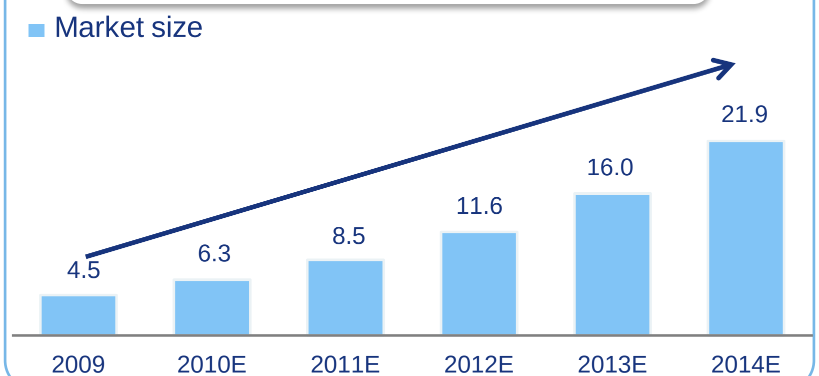
# Agenda

# Leading IT Services Company in the Fast-growing Chinese Market

## China Domestic IT Services Market




## Global IT Outsourcing to China[1]




## Leadership in China IT Services

Ranked **Top 3** by IDC in Consulting & Solutions for Government industry vertical in 2007-2010

Ranked **Top 2** by IDC in IT Outsourcing for Americas and Europe in 2007-2010

## New Opportunities in 12th Five Year Planning Period

In 12th five year planning period, China will **focus on fostering knowledge-intensive service industries** with a core of new generation information industry [1] . Market scale of China's software and IT services will grow from 1.12 trillion in 2010 to **more than 3 trillion in 2015** [2]**.**

The scales of following strategic emerging industries are expected to reach [2]:

- Government: **USD 1.6 billion** in 2012
- Banking and insurance: **USD 2.2 billion** in 2012
- Telecommunications: **USD 3.0 billion** in 2012
- Manufacturing: **USD 3.5 billion** in 2012
- Mobile Internet: **USD 35.0 billion** in 2012
- Internet of Things: **USD 700 billion** in 2015

2012- -owned enterprises(SOE) in the IT services will be **more than USD 1200 billion.**(30 billion per each SOE in average)

# Vision and Development Objective of ChinaSoft International

as a global IT service company rooted in China with end to end service capability in booming China market with abundant human resources as competitive advantage.

Creating, Sharing and Growing Together


| Strategic Objectives | |
|---|---|
| Long-term | By year 2020 Global Software and IT services company with service revenue reaching USD and headcount |
| Mid-term | By year 2015 Global Software and IT services company with service revenue reaching USD and headcount |
| Short-term | By year 2012 Global Software and IT services company with service revenue reaching USD and |

# Driving Revenue Growth

**Focus on**

# Driving Margin Expansion

| | |
|---|---|
| **Gross Profit** | **Focus more on consulting and solution** Increasing of reusability of solutions for both Lines of Business, we can increase the Gross Margin of the whole Group .<br><br>**Focus on high margin customers** By increasing the weighting of Mobile Internet related business which enjoy a much higher Profit Margin in the next forthcoming years we will have a much bigger room for further improvement in GM.<br><br>**Reduce direct cost by moving delivery centers to tier-three cities** By switching our offshore delivery centers(ODCs) for total solution from Tier one city to Tier Three Cities, commencing from the Line of Business of Government and Manufacturing, we can increase our GM in the forthcoming years as we enjoy the "economies of scale" for ODC delivery centre in Tier Three cities. |
| **Operating margin** | Streamline operation and management (ERP on HR, Finance, etc.) to reduce G&A expense<br>Consolidate regional delivery capabilities to reduce management overhead<br>Increase cross-selling to reduce sales and marketing cost |

**www.chinasofti.com**

***THANK YOU***

# Reconciliations of - -

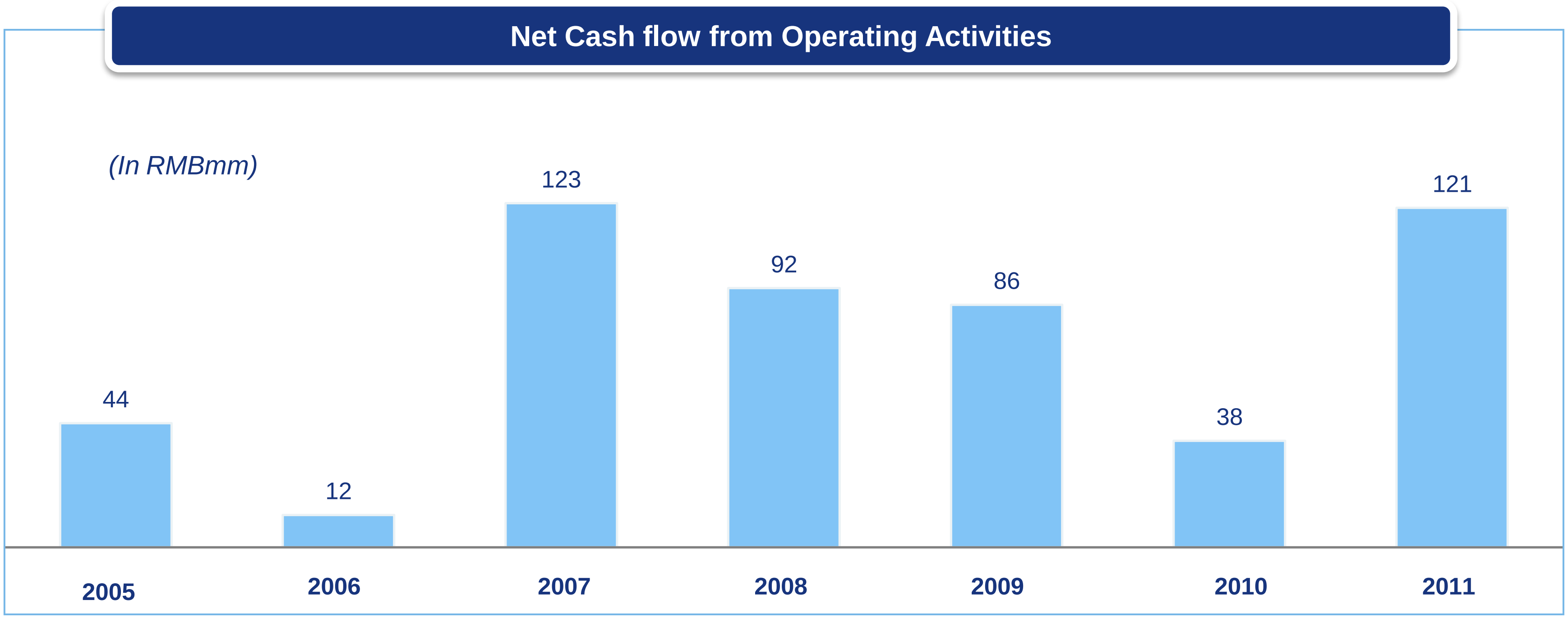
| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| +Loss in FV changes of p shares | 37,287 | 1.7% | 1.9% | 145,197 | 9.1% | 10.6% | -8.7% | -74.3% |
| +Impairment loss | 68,982 | 3.1% | 3.5% | - | - | - | NA | NA |
| +loss on deemed disposal of associates | 105 | 0.0% | 0.0% | - | - | - | NA | NA |
| -Gain from FV changes of contingent consideration payable | -71,718 | -3.2% | -3.7% | - | - | - | NA | NA |
| | | | | | | | | |
| +Taxation | 29,611 | 1.3% | 1.5% | 14,657 | 0.9% | 1.1% | 0.4% | 102.0% |
| +Finance cost | 23,898 | 1.1% | 1.2% | 8,102 | 0.5% | 0.6% | 0.6% | 195.0% |
| +Depreciation | 39,047 | 1.7% | 2.0% | 35,377 | 2.2% | 2.6% | -0.6% | 10.4% |
| +Amortization of intangible assets | 47,514 | 2.1% | 2.4% | 29,889 | 1.9% | 2.2% | 0.2% | 59.0% |
| -Share of result of associates | -2,618 | -0.1% | -0.1% | -2,650 | -0.2% | -0.2% | 0.1% | -1.2% |
| | | | | | | | | |
| +Share option expense | 24,861 | 1.1% | 1.3% | 27,669 | 1.7% | 2.0% | -0.7% | -10.1% |
| +Net foreign exchange loss (gain) | -12,082 | -0.5% | -0.6% | -3,094 | -0.2% | -0.2% | -0.4% | 290.5% |
| +Allowance of doubtful debts | 17,417 | 0.8% | 0.9% | 8,276 | 0.5% | 0.6% | 0.3% | 110.5% |
| | | | | | | | | |

*Non-GAAP Net Profit represents net profit excluding the changes in fair value of redeemable convertible preferred shares, Impairment loss on goodwill ,Gain arising from changes in fair value of contingent consideration payable on acquisition of business and Loss on deemed disposal of associates.

# Service Revenue by Contract Model

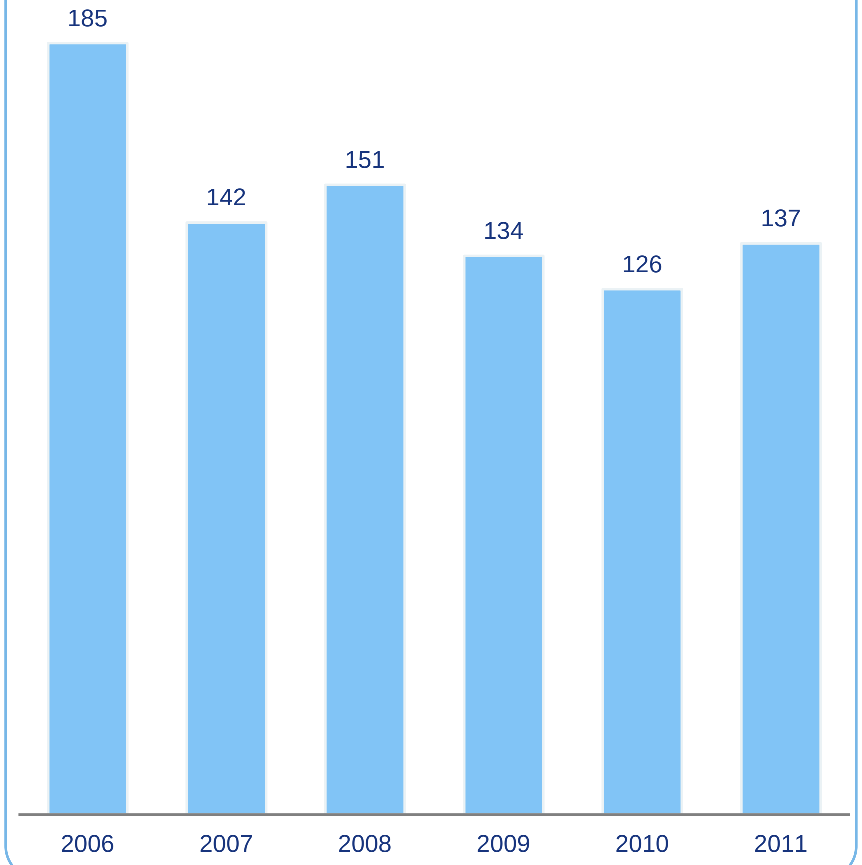
| | | | | | |
|---|---|---|---|---|---|
| Fixed Price | 1,000,427 | 51.0% | 691,507 | 50.3% | 44.7% |
| T&M | 887,783 | 45.3% | 620,560 | 45.2% | 43.1% |
| Volume Base | 71,675 | 3.7% | 62,357 | 4.5% | 14.9% |
| | | | | | |

# Operating Cash flow

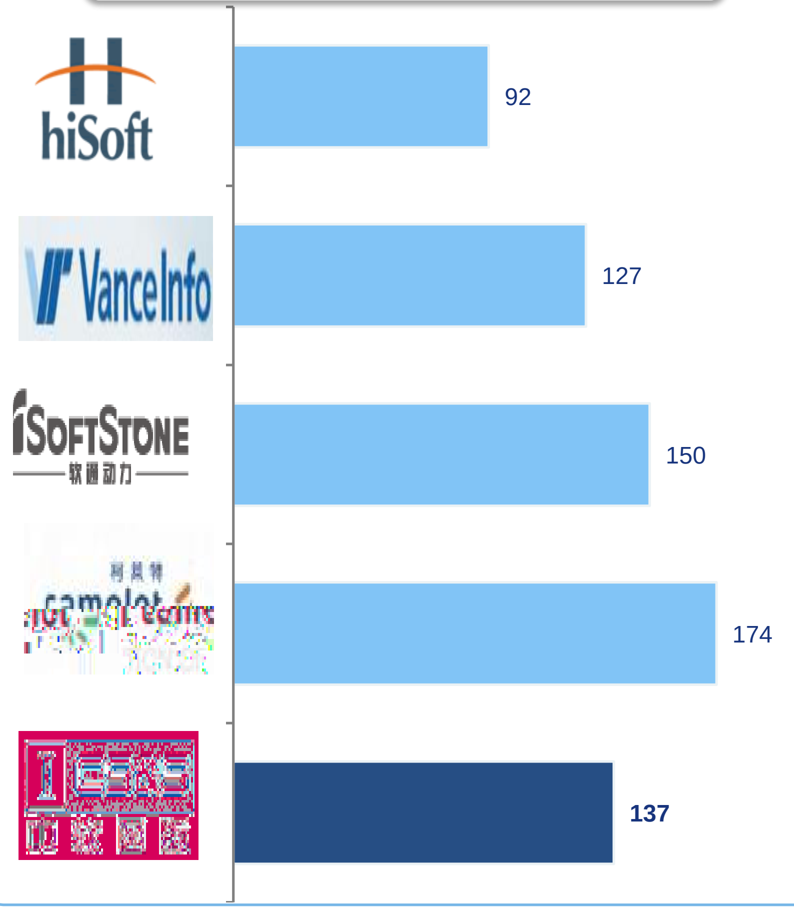


# Days Receivable Comparison with Peers

## Days Outstanding of AR




## Days of AR Comparison for 2011



# Aging Analysis of Accounts Receivables

| | | | | | | |
|---|---|---|---|---|---|---|
| Within 90 days | 483,793 | 48.2% | 370,973 | 52.5% | 112,820 | 30% |
| Between 91-180 days | 80,316 | 8.0% | 40,565 | 5.7% | 39,751 | 98% |
| Between 181-365 days | 39,804 | 4.0% | 16,347 | 2.3% | 23,457 | 143% |
| Between 1-2 years | 30,293 | 3.0% | 26,073 | 3.7% | 4,220 | 16% |
| Over 2 years | 5,728 | 0.6% | 1,053 | 0.1% | 4,675 | 444% |
| | | | | | | |
| | | | | | | |
| | | | | | | |