浪潮國際有限公司
INSPUR INTERNATIONAL LIMITED

(於開曼群島註冊成立的有限公司
Incorporated in the Cayman Islands with limited liability)

(股份代號 Stock Code：596)

2017
Annual Report 年度報告

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Xingshan
Mr. Lee Eric Kong*
Mr. Jin Xiaozhou, Joe

NON-EXECUTIVE DIRECTORS

Mr. Samuel Y. Shen*
Mr. Dong Hailong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Lit Chor, Alexis
Ms. Zhang Ruijun
Mr. Ding Xiangqian

COMPANY SECRETARY

Ms. Chan Wing
Mr. Zou Bo

COMPLIANCE OFFICER

Mr. Dong Hailong

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Agriculture Bank of China Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House 24 Shedden Road,
George Town Grand Cayman KY1-1110 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room B&C, 30/F, Tower A
Billion Center
1 Wang Kwong Road,
Kowloon Bay
Kowloon
Hong Kong

WEBSITE

www.inspur.com.hk

MAIN BOARD STOCK CODE

596

* Mr. Lee Eric Kong has been appointed on 1 August 2017 as an executive director.

* Mr. Samuel Y. Shen resigned on 27 March 2018 as a non-executive director.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Inspur International Limited (the "Company"), I would like to present the financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017.

FINANCIAL SUMMARY

During the year under review, revenue was HK$1,317,951,000 (2016: HK$1,163,170,000), representing an increase of approximately 13.31% as compared with last year. The principal business of the Company increased in line with the year-on-year growth of 25.6% in revenue from the Enterprise Resource Management ("ERM") related business in 2017. Meanwhile, rental income from investment properties increased stably and the year continued to post fair value increases in investment properties, as a result, profit attributable to shareholders for the year was approximately HK$113,051,000 (2016: HK$59,893,000), representing an increase of approximately 88.75% as compared with last year.

Basic earnings per share was HK12.30 cents (2016: HK6.64 cents) and diluted earnings per share was HK12.20 cents (2016: HK6.63 cents)

BUSINESS REVIEW AND OUTLOOK

In 2017, despite continued unoptimistic domestic and international economic situation, the Company fully implemented the "data-centric" strategy to meet the strong request of digital transformation. At the earlier year, the Company established a set of aggressive market expansion strategies, including putting more resources into key areas for a breakthrough of sales volume, focusing on the development of direct marketing channels and introducing specialized channel-owned products. Benefited from the above strategies, the Company maintained over 20% increases in both ERM revenue and gross profit, which improved the market influence and competitiveness of the Company. Besides, the Company also made initial progress in controlling overall operating expenses, with operating results recorded a stable increase.

In 2018, the economy of China will seek for growth while keeping stable development. In line with modern concept of development and with focus on innovation, it will step into a new phase of development featuring high quality. By virtue of various new technologies and new modes, including but not limited to cloud computing, big data, internet of things, artificial intelligence (AI), mobile internet and block chain, sprung up continuously, the Company will closely follow the pace of technology innovation. Meanwhile, with the implementation of a new round of state-owned enterprise reform and inter-enterprise reorganization as well as the application of new technologies, it is expected to further stimulate the informatization needs of senior decision-makers of enterprises. We expect the overall ERM related business will maintain a stable growth. In 2018, the Group will make full use of the market opportunity arising from the intra-group reorganization of our customers and implement digit transformation, enabling our clients to identify the potential value of digit assets. Scale of revenue is a key to the development of enterprises. The ERM enterprises cannot achieve scale economy efficiency for sustainable development and establish long-term partnership with their customers without a large scale of revenue. We will also pay close attention to good opportunities of merger and acquisitions in the market. In 2018, the Company will be firmly determined to transform itself to be a SaaS service provider and facilitate all-around cloudification of its main products. By way of shifting its business from project management to providing SaaS service, the Company is expected to accelerate its development to improve customer satisfaction and bring better return to the shareholders. The stable improvement in operating results of the Company in the past year cannot be achieved without support from the shareholders, guidance of the Board of Directors and efforts of all the staff, as well as support from our partners and any other party who cares about the development of the Company.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to extend my sincere gratitude to our shareholders for their continuous support. I would also like to thank all the staff for their valuable contribution to the Group during the past year.

Wang Xingshan
Chairman

Hong Kong, 26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2017, the revenue of the Group recorded an increase of approximately 13.31% as compared with last year, gross profit of the Group recorded an increase of approximately 26.16% as compared with last year. Profit attributable to owners of the Company during the year was approximately HK$113,051,000, increased by approximately 88.75% as compared with last year.

(1) Revenue from Enterprise Resource Management ("ERM") related business increased sharply

The Group recorded a revenue of HK$1,317,951,000 (2016: HK$1,163,170,000) representing an increase of 13.31% as compared with last year. The revenue of ERM related business for the year was HK$1,041,316,000 (2016: HK$828,839,000), representing an increase of 25.64% as compared with last year. On the other hand, the software outsourcing business was HK$276,635,000 (2016: HK$334,331,000), representing a decrease of 17.26% as compared with last year.

(2) Gross profit from operations increased sharply

Gross profit of the Group was HK$431,672,000 for the year (2016: HK$342,161,000), representing an increase of 26.16% as compared with last year. The Group's gross profit margin was 32.75 % (2016: 29.42%). The year-to-year increase in gross profit margin was mainly due to improvements in product standardization and operation in the ERM business.

(3) Selling and distribution expenses and administrative expenses under effective control

During the year, selling and distribution expenses and administrative expenses amounted to HK$499,549,000 (2016: HK$460,006,000), representing an increase of 8.60% as compared with last year. The expense increasing is mainly due to cost generated from adding new maketing staff. In particular, the overall staff cost of the Group has increased.

(4) Other incomes and other gains and losses

During the year, the other incomes and other gains and losses amounted to HK$136,370,000 (2016: HK$155,743,000) meaning a decrease of 12.44% as compared with last year mainly due to: 1) an amount of HK$9,667,000 (2016: HK$31,407,000) from government subsidies and grants were received and recognized as income in current year, which represented an decrease of 69.22% as compared with last year; 2) rental income and management fee generated from investment property recorded HK$37,130,000 (2016: HK$32,487,000) and showed an increase compared with same income of 2016.

(5) Profit attributable to owners of the Company increased sharply

Net profit attributable to owners of the Company for the year was approximately HK$113,051,000 (2016: HK$59,893,000), representing a significant improvement as compared with last year. Main reasons: (1) despite facing fierce market competition, the company's main management software business continued to grow steadily. The growth rate of ERM business revenue and gross profits were higher than the expense growth rate; (2) although software outsourcing business resulted in a decrease in segment revenue and a decrease in gross profit due to business transformation, the increase in gross profit from ERM business offset the decrease in outsourcing business.

Basic earnings per share were HK$12.30 cents (2016: HK$6.64 cents) and diluted earnings per share were HK$12.20 cents (2016: HK$6.63 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

(6) Financial resources and liquidity

As at 31 December 2017, equity attributable to owners of the Company amounted to HK$2,077,037,000 (at 31 December 2016: HK$1,734,331,000). As at 31 December 2017, current assets amounted to HK$1,814,116,000 of which HK$1,350,777,000 were bank deposits and cash balances which were mainly denominated in Renminbi.

As at 31 December 2017, current liabilities, including trade and bills payables, other payables and accrued expenses, and amounts due to customers for contract work, amounted to HK$917,484,000. The Group's current assets were around 1.98 times over its current liabilities (31 December 2016: 1.79 times).

As at 31 December 2017 and 31 December 2016, the Group had no bank borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group's purchase and sales are mainly denominated in United States Dollars and Renminbi. The Group has not used any derivative instrument to hedge against its currency exposures. The Directors believe that with its sound financial position, the Group is able to meet its foreign exchange liabilities as and when they become due.

CAPTIAL STRUCTURE

The Group finances its operations mainly from shareholder equity, internal generated funds and operation results in current year.

FINAL DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of HK$0.03 in respect of the year ended 31 December 2017 (2016: final dividend of HK$0.03 in respect of the year ended 31 December 2016) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

EMPLOYEE INFORMATION

As at 31 December 2017, the Group had 3,763 employees.

Total employee remuneration, including directors' remuneration and mandatory provident fund contributions amounted to approximately HK$680,249,000 for the year ended 31 December 2017.

According to the comprehensive remuneration policy, which was formulated by the Group and reviewed by the management, employees are remunerated based on their performance and experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employees with reference to the Group's and the employee's performance. In addition, the Group provides mandatory provident fund, medical and insurance schemes for employees. The Group also offers continuous education and training programs to the management and other employees to enhance their skills and knowledge.

On 1 December 2017, 30 million share options were granted to senior management and employees under 2008 Share Option Scheme, to encourage our staff create and share value with shareholders. By end of the year, 9,000,000 options were exercisable.

CHARGES ON ASSETS

As at 31 December 2017, approximate HK$14,126,000 of the Group's bank deposits was pledged (2016: approximate HK$18,449,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the reporting period, the Group has caught up with the strong growth trend of the enterprises' digital transformation needs and fully implemented the "data-centric" strategy. Through the use of new technologies of cloud computing, big data, Internet of Things and mobile internet etc., and taking Inspur Enterprise Cloud as the new momentum of enterprise transformation and upgrading, the Group aims to help customers build smart companies, and transforms itself into a cloud and data services provider, thus becoming the leading manufacturer of ERM and cloud services vendor in China.

I. ERM Related Business

1. Cloud service business

In the era of digital economy, traditional industries are faced with transformation and upgrading. New technologies, new industries, new formats, and new business models are emerging. IT technology represented by cloud computing has become an important driving force for the replacement of old growth driver with new one. The Ministry of Industry and Information Technology released the "Three-year Action Plan for the Development of Cloud Computing." Many provinces and cities such as Zhejiang, have started the new business model of moving company's businesses and operations onto the cloud.

During the reporting period, the Group has grasped the opportunity of "Moving business onto cloud" initiative and upgrades its Inspur ERP cloud to the Inspur Enterprise Cloud. In the middle of the year, the Group launched the cloud platform GS7.0 in Beijing, which combined with Inspur Enterprise Cloud series products, such as cloud accounting, human resource cloud, iGo cloud, and big data analysis cloud. All are guided by the concept of interconnection, sharing, intelligence, and the aim of building "smart brain" for enterprises. Targeting the enterprises' market, since July, we launched the Inspur Enterprises Cloud national tour covering more than 20 cities, such as Guangzhou, Tianjing, Hefei, Zhengzhou, Linyi, Yantai,Haerbing etc., and attracted lots of enterprise clients. In the medium-sized enterprise market, 25th November, we launched Inspur PS365 Cloud. In small and medium enterprises ("SME") market, we rolled out accounting cloud and supply chain cloud. In the reporting period, products of the Group have covered the full spectrum from macro, medium, to SME markets. With Inspur high-quality "cloud engine", we empowers our business partners and customers to become more competitive in the cloud era. In the period, we put more attention on the business partners. On 24th of April, our national channel partners' conference was held, during which we released our aggressive market strategy for SMEs market: We will reconstruct the channel system, fully unleash the channel potential, and help the enterprises to move business onto cloud.

The company has further expanded the application scenarios of human resource cloud and improved user experience. The company has continued to optimize multiple application scenarios such as human resource systems and remuneration systems, and enhanced its position to provide professional human resources cloud service solutions for large and medium-sized enterprises. During the reporting period, the company formally released cloud products for attendance and recruitment. Its core architectural capabilities are far ahead of its rivals. In the future, the company will further accelerate marketing, closely follow market hotspots as well as advanced management models, and enhance the customer experience on both enterprise user end as well as individual user end, to further improve the quality of each user application and expand user basis. In the reporting period, we signed contracts with several typical key customers, such as China Railway Construction, Guangdong Utrust, Canton Tower, China Energy Engineering Corporation, Lanzhou Rail Transit, Linyi Shandong Energy Mining Group, PowerChina Roadbridge Group etc., and got more than 800,000 registered users and over 1.27 million daily page views.

MANAGEMENT DISCUSSION AND ANALYSIS

The company's procurement cloud products (iGo) has continued to improve both in terms of functionality and stability, and now it has covered all procurement models. In the construction industry, it has become the top 1 choice in e-procurement platform. In the future, the company will continue to accelerate research and development for next-generation products and to use the most advanced technologies to expand application areas of procurement clouds, especially in manufacturing industry. During the reporting period, we have successfully signed contracts with lots of typical key customers such as China Electronics Technology Group Corp, Jiangsu Jinglin Sci&Tech Group, Shandong Lianmeng Chemical Group, Weixing Group, Luban (Beijing) Ecomm Technology Ltd etc.

During the reporting period, the Company formally rolled out enterprise collaborative platform of "Cloud + Intelligence", which includes five functions such as mobile portal, digital work platform, digital collaboration platform, intelligent assistant and open mobile platform, to help enterprise customers reshape their working models. The platform of "Cloud + Intelligence" provides mobile application services in the public cloud model, serving as a unified portal for employee collaboration and mobile applications. It has gained numerous favorable feedback from market with its integration with GS, PS, and many third-party business applications, and also many intelligent features such as natural language-based conversational platforms. After its launching, this platform has been successful deployed by many major clients such as China International Engineering Consulting Corp, Shanghai Aircraft Design and Research Institute, Chengde Heating Group etc., with more than 100,000 registered users and over 550,000 daily page views.

Since Inspur launched accounting cloud for small enterprises at the end of 2016, with its designing idea being "simple, mobile, and intelligent" and also feature of "available-to-work" at anytime and anywhere, Inspur accounting cloud has helped numerous SMEs to improve greatly on efficiency and also saved them at least 60% of repetitive tasks, thus making it a great success among customers. At the end of the reporting period, registered users have exceeded 400,000. In the future, the company will further improve its user experience, continuously enhance product functions, and with its great capability of connecting each nodes, to help SMEs connect easily with banks and accounting agency companies, to clear out barriers in green channels for online credit and online financing, solving the financing problems for SMEs. In January 2018, at the 6th China SMEs Service Conference held by the Ministry of Industry and Information Technology Development and Promotion Center of the Ministry of Industry and Information Technology, Inspur accounting cloud got selected successfully as the "2017 China SME First Choice of Service Provider".

2. *Software and Data Service Business*

The company has fully utilized its product advantages in the areas of group control and financial sharing to help large-scale group enterprises making innovations in their management accounting. During the reporting period, the Group's management software continued to maintain a substantial growth, and the amount of contract signed increased by 49% year-on-year. To help the group companies achieve financial management transformation, in April of 2017, at the Shanghai National Accounting Institute, Inspur hosted the group's corporate finance shared service summit under the theme of "New Finance and Full Shared Service" and proposed the concept of "new finance shared service". In October 2017, China's first university FSSC experience center, which was jointly established by Inspur and Xi'an Eurasia Academy, was formally released to jointly promote the research and practice of management accounting in university teaching. In November, 2017, Inspur hosted the "Big Data & Management Accounting Innovation" forum jointly with the Shanghai National Accounting Institute, ICAEW, CGMA, ACCA, and IMA in Shanghai. In this forum, Inspur, together with the Shanghai National Accounting Institute and ICAEW, jointly released the report "Application of Big Data in Chinese Business" to help enterprises tap into data's value.

Seizing the opportunity of national IT upgrade trend in the grain sector, the company provided total solution and product for intelligent grain management based on IoT, providing services to corresponding departments and grain depots at all levels and for all sizes. During the reporting period, the company has successfully renewed contracts with many important customers to develop for them intelligent grain solutions, including Sinograin, State Administration of Grain, Shandong Grain Bureau and also signed important projects for grain management IT systems in provinces like Henan, Anhui and Hunan. With a deep understanding in grain sector and advanced IoT usage, the Company maintains a leading market share in the field of grain sector IT system. In the future, through further corporation as well as joint promotion with our partners, we will set our mind on gaining even more market share.

In terms of delivery and on-site implementation, the Group has always adhered to the concept of "customer-centric" and worked on improving customer satisfaction through various measures. The Group has continuously improved the layout of regional delivery centers, brought in local implementation personnel, and actively recruited senior experienced project managers, senior consultants, and ensure the on-site implementation is fairly standardized and project schedule is well met according to contract. During the reporting period, customer satisfaction surveys and customer callback mechanisms were established to ensure excellent product quality and service reputation. During the reporting period, all key delivery indicators have been achieved with satisfactory results.

II. Software Outsourcing Business

During the reporting period, due to the adjustment in market strategy of some major customers' businesses, the revenue of outsourcing business showed a year-on-year decrease. The outsourcing business faced difficulties in business transformation and expansion of new customers. We have continuously tapped into the core business layout of key customers such as Microsoft, Furukawa Electric, and China Mobile Aspire, and also added new customers such as Haier, and other new projects. Furthermore, we have effectively promoted cooperation with Furukawa Electric in areas of cloud computing, by assisting it to unify its global operations. This Furukawa project has helped the company to lay a solid foundation for future expansion in China, Asia Pacific or even the rest of the world.

In the future, the company will continue its business transformation, add more service methods, innovate service content, expand service scope, acquire more market share by adding new outsourcing business, and transform our software outsourcing business model towards "product, platform, cloud and big data" in all aspects. The company will strive to fulfill the transformation of traditional outsourcing service model to an advanced cloud-based IT service model, making more contributions to company's performance.

BUSINESS PLAN

In the view of the Group, the digital transformation of enterprises should be based on the concept of "Interconnection,Sharing and Intelligence". Based on a clear digital business strategy and direction, surrounding its two major driving forces of "Cloud" and "Data", the company will rely on "ERM evolution" as the growth pillar, help customers build their own intelligent "Corporate brain" and promote enterprise management to be more easy to share, precise, visual, and intelligent.

In 2018, the Group will continue to implement the "Data-centric" strategy and implement an aggressive market expansion strategy by focusing on the industry and core products. The Group will increase the investment in R&D and bring in more high-end talents, accelerate the speed of product release designed for partners, gain more market share in SMEs management software market, and increase our overall product market presence. Meanwhile based on the ERM business, we will develop more IOT and big data analysis products and build industrial IOT platform. Convince large-scale enterprises to carry out digital transformation to serve multi-level corporate subsidiaries and upstream and downstream of the industrial chain. We will unite our business partners to establish industrial Internet ecosystem and promote SME cloudization.Next year, through joint venture and cooperation, and also independent R&D, the company will see a more comprehensive enterprise cloud service and product layout, thus achieving the goal of "Traditional software business reshaped by cloud" and "great-leap-forward development of cloud service."

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Mr. Wang Xingshan, aged 53, is the chairman of the Board and the chief executive officer ("CEO"), expert in special government grants from the State Council, Taishan Scholar (泰山學者), a management accounting advisor of the Ministry of Finance and a member of management accounting leader think-tank in North Asia (北亞管理會計領袖智庫). Mr. Wang graduated in Xian Jiaotong University with a Master degree in computer and maths sciences in 1987. In early 1990, Mr. Wang as a visiting scholar conducted research relating to corporate management and software engineering in the Japan Productivity Center. Mr. Wang had worked in several departments of Inspur Group. Mr. Wang has attained over 30 years' experience in the operation and management of the IT industry in China, particularly in the field of software and IT service, and has been devoted to the innovation of ERP technology and innovation of management, which has led the Company to move towards its transformation to the leading cloud service provider in China. As a result of his outstanding achievement, he has been granted various awards of which have been awarded by the State and provincial governments, such as the "Top Ten Software Industry Leader of China", "China Management Institute Award" and "Young and Middle-Aged Expert of Outstanding Contribution of Shandong Province".

Mr. Lee Eric Kong, aged 49, has over 16 years of experience in business management. He first obtained a Master of Electrical Engineering from the University of Technology in Eindhoven, the Netherlands, in 1993. For about 9 years, Mr. Lee has held technical, marketing and business development and business management positions in AT&T Network Systems International and Lucent Technologies in Europe, Russia, the People's Republic of China ("PRC"), Australia, Philippines and Malaysia. During his time with Lucent Technologies, Mr. Lee received full sponsorship from the aforesaid company in 1997 to attend a full-time MBA program of INSEAD in France. Mr. Lee later joined Oracle Corporation as client director for the Asia Pacific Enterprise Accounts Division, after which he joined the Group in October 2003 as investor, co-founder and COO, promoted to President & CEO the following year, of the Group's outsourcing start-up, successfully built the business from practically zero to one of the PRC's top five outsourcing firm servicing domestic and international markets. He resigned in October 2013 and have since then became a private investor for various projects. With effect from 1 August 2017, Mr. Lee has been appointed as executive Director of the Company. Mr. Lee is also appointed as the President and Chief Operation Officer of the Company and the President and Chief Operation Officer of Inspur Genersoft Co., Ltd (a subsidiary of the Company) at the same time.

Mr. Jin Xiaozhou, Joe, aged 56, has obtained a bachelor degree in Space Physics at the Peking University, a master degree in Electrical Engineering at the Institute of Electronics, Chinese Academy of Sciences (中國科學院電子學研究所), a master degree in Electronics, Computer and Systematic Engineering at the Boston University. He is currently a general manager of Langchao Worldwide Services Limited (浪潮世科服務有限公司) ("Langchao"), a subsidiary of the Company and is in charge of the Company's international outsourcing business. In past years, Mr. Jin had served as the architect, research and development director, principal architect and technical director, etc. at Nets Inc., Fidelity Investment (富達基金), Thomson Financial Services (湯姆森-路透集團金融服務公司) and ONEWORLD Software Solutions. In 2000, Mr. Jin founded DoubleBridge Technologies, Inc., in America and served as one of the founder partners and as vice chief operating officer. He had also served as the president of 北京道達技術有限公司 and as a managing director of DoubleBridge (Hong Kong). Mr. Jin has 30 years of relevant experiences in the I.T. business sector, principally in charge of risk investment, designing and planning, and managing development.

Mr. Dong Hailong, aged 40, a non-executive Director, Mr. Dong graduated from Southwest Jiaotong University with a Bachelor degree in Telecommunication Engineering in 1999. Mr. Dong joined the Company in 2002.

Mr. Samuel Y. Shen, aged 53, a non-executive Director, holds a Master's degree in Computer Science from University of California, Santa Barbara. Mr. Shen is the president of JD Cloud, the cloud business unit under JD.com. Mr. Shen formerly was the chief operation officer of Microsoft Asia-Pacific Research and Development Group. As the senior leader of Microsoft in the region, Mr. Shen is in charge of the strategy and direction for Microsoft global development in Asia Pacific. Additionally, he oversees Microsoft Cloud related development and deployment in China as well as manages the joint-development ecosystem efforts. Mr. Shen has a solid technical background and rich experience in business operation and management. Mr. Shen resigned on 27 March 2018 as a non-executive Director of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Wong Lit Chor, Alexis, aged 59, an independent non-executive Director,graduated from University of Toronto, Canada in 1981 with bachelor's degree in arts majoring in economics and commerce and has obtained a master of business administration degree from The Chinese University of Hong Kong in 1987. He has over 30 years of banking, investment, corporate finance and securities dealing experience gained by working as a senior executive in a number of listed local and PRC financial services companies. Mr. Wong is also an independent non-executive director of one companies listed on the Main Board of the Stock Exchange of Hong Kong.

Ms. Zhang Ruijun, aged 56, an independent non-executive Director, graduated from the School of Business of Renmin University of China with a Ph.D degree in management studies in 2002. Ms. Zhang is currently a Professor of Finance and a Ph.D supervisor in the School of Business of Renmin University of China, and she is engaged in research on IT and Management Integrations of Enterprise Group Control Strategy, Enterprise Group Fund Management and Financial Resources, and Enterprise Risk Management. Several research papers of Ms. Zhang have been published in academic journals in PRC during the recent years, such as Management World (《管理世界》), Accounting Research (《會計研究》), China Soft Science (《中國軟科學》), Finance & Accounting (《財務與會計》), and Economic Theory and Business Management (《經濟理論與經濟管理》). Ms. Zhang is also an independent nonexecutive director of a company listed on the Stock Exchange of Shenzhen.

Mr. Ding Xiangqian, age 56, is currently a supervisor of doctorate degree and a chief manager at the Ocean University of China (中國海洋大學). Mr. Ding had previously worked as chief manager of the CAD and Multi-media Research Centre* (CAD與多媒體研究中心) and the Information Engineering Centre* (資訊工程中心) at the Ocean University of China, chief manager of academic committee of the Qingdao Internet of Things Association (青島市物聯網協會學術委員會), head of Qingdao Manufacturing Industry Informatization Expert Panel* (青島市製造業信息化專家組), expert for informatization of Qingdao Development Reform Committee* (青島市發改委), Qingdao Technology Bureau* (青島市科技局), Qingdao Economic Information Committee* (青島市經信委) etc. Mr. Ding focuses his research on areas such as software engineering and artificial intelligence, etc. Mr. Ding is very experienced in the area of entrepreneurial informatization service and modern service industry technology. At the same time, Mr. Ding is also an expert of the Key Technology Research and Development Program of the Twelfth Five-Year Expert Panel* ("十二五"科技支撐計劃現代服務業領域總體專家組) and a member of the Informatization of Advanced Manufacturing in Technology Expert Panel* (科技部"十二五"製造業信息化科技工程總體專家組). He had held and participated in over 50 national and provincial lectures, participated in over 30 informatization building projects in large enterprises and has received and obtained 9 provincial technology award and 21 national patent rights. Mr. Ding has also published over 60 academic articles of relevant areas and 3 monographs.

SENIOR MANAGEMENT

Ms. Chan Wing, aged 47, company secretary of the Company. She is a fellow member of The Hong Kong Institute of Certified Public Accountants, a member of ICAEW and the Chinese Institute of Certified Public Accountants respectively. Prior to joining our company, Ms. Chan served as a company secretary, authorized representative, qualified accountant, chief financial officer and director of a company listing on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Zoubo, aged 39, is the chief financial controller, authorised representative and joint company secretary. Mr. Zou was graduated from Huazhong University of Science and Technology with a bachelor degree in management and law in 2001. Mr. Zou joined the Group in 2006.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2017.

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholders' value and investors' confidence.

The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal control.

THE BOARD

The Company has adopted and complied with the principles set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 (for Main Board) of the Listing Rules. In the opinion of the Board, the Company has complied with all the code provision set out in the CG Code throughout the year ended 31 December 2017 with the exception of: (a) Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. Mr. Wang Xingshan is both the Chairman and CEO of the Company. This structure does not comply with code provision A.2.1 of the CG Code. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. (b) Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Partial Directors were unable to attend the annual general meeting as they were obliged to be away for business trips. The Company will improve its meeting scheduling.

The Board will continue to enhance the corporate governance standards and practices of the Company as benefiting the conduct and growth of its business and to regularly review such standards and practices to ensure that they comply with statutory and professional standards and align with the latest developments. The key corporate governance principles and practices are as follows:

The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Company's financial performance, evaluating the performance of management on behalf of the shareholders. Directors are charged with the task of promoting the success of the Company and making the best interest of the Company. The day-to-day management, administration and operation of the Company are in charge by the executive directors and senior management under the leadership of the Chief Executive Officer. The Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

CORPORATE GOVERNANCE REPORT

The Board meets and discusses on regular basis when required on the activities and development in the business of the Group. During the financial year ended 31 December 2017, the Board held four meetings. The attendance of the directors at the board meetings are as follows:

Directors' attendance at Board meetings:

Directors	Number of attendance
Mr. Wang Xingshan	5/5
Mr. Lee Eric Kong	1/1*
Mr. Jin Xiaozhou, Joe	5/5
Mr. Samuel Y Shen	5/5
Mr. Dong Hailong	5/5
Mr. Wong Lit Chor, Alexis	5/5
Ms. Zhang Ruijun	5/5
Mr. Ding Xiangqian	5/5

* Mr. Lee Eric Kong was appointed on 1 August 2017. Board meeting of the Company was held once during his duration.

Board Minutes are kept by the Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

Directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appreciate circumstances at the Company's expense, upon reasonable request made to the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Mr. Wang Xingshan is both the Chairman and CEO of the Company. He has executive responsibilities and provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Also, he is daily operational decisions and performance of management of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

BOARD COMPOSITION

Now the Board comprises three Executive Directors, being Mr. Wang Xingshan, Mr. Lee Eric Kong and Mr. Jin Xiaozhou, Joe and Non-Executive Director Mr. Dong Hailong and Mr. Samuel Y Shen and three Independent Non-Executive Directors, being Ms. Zhang Ruijun, Mr. Wong Lit Chor, Alexis and Mr. Ding Xiangqian.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out in Directors and Senior Management Profile section to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

The Company has received annual confirmation of independence from the three Independent Non-Executive Directors in accordance with Rule 3.13 of the Main Board Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

CORPORATE GOVERNANCE REPORT

APPOINTMENTS, RE-ELECTION AND REMOVAL

The Board has established a Nomination Committee (the "NC"). The committee consists of one Executive Director, Mr. Wang Xing Shan, with two Independent Non-Executive Directors, Ms. Zhang Ruijun and Mr. Wong Lit Chor, Alexis with effect of 1 April 2014. The primary purpose of the NC is to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes. The Committee identified suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

The procedure and process of appointment, re-election and removal of director are laid down in the Company's Articles of Association (the "Articles of Association"). According to the Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and at each annual general meeting, one third of the Directors for the time being shall retire from office for rotation. Besides, any new director appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting.

The meetings of the NC was held two during the year.

RESPONSIBILITIES OF DIRECTORS

Every newly appointed director is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer. The Directors are continually updated with legal and regulatory developments, business and market changes and the strategic development of the Group to facilitate the discharge of their responsibilities.

The Independent Non-Executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct. They will take lead where potential conflicts of interests arise. They are also members of various board committees and scrutinize the overall performance of the Group in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular board meetings, an agenda and the accompanying board papers are sent in full to all Directors at least 3 days before the intended date of a meeting. Board papers are circulated to the Directors to ensure they have adequate information before the meeting for the ad hoc projects.

The Management has the obligation to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. Where any director requires more information than is volunteered by the Management, each director has separate and independent access to the issuer's senior management to make further enquires if necessary.

All Directors are entitled to have unlimited access to the board papers and relevant materials. Such information is prepared to enable the Board to make an informed decision on matters placed before it.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established a remuneration committee.

The committee consists of one Executive Director, Mr. Wang Xing Shan, with two Independent Non-Executive Directors, Ms. Zhang Ruijun and Mr. Wong Lit Chor, Alexis with effect of 1 April 2014.

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the Directors and senior management, and to consider and approve remuneration for the directors and senior management by reference to corporate goals and objectives. The committee shall meet at least once a year if necessary. The meetings of the remuneration committee was held three during the year

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIO NS OF THE BOARD AND MANA GEMENT

The Board, led by the Chairman, is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various authority and duties set out in their respective terms of reference. All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The Board has delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include implementing decisions of the Board, directing and coordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operating and production plans and budgets, and supervising and monitoring the control system.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The principal role and function of the Audit Committee are amongst others to (i) review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function or external auditor before submission to the Board; (ii) review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and (iii) review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

Directors' attendance at Audit Committee meetings

Directors	Number of attendance
Mr. Wong Lit Chor, Alexis (Chairman of the Audit Committee)	2/2
Mr. Ding Xiangqian	2/2
Ms. Zhang Ruijun	2/2

The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits without the presence of the management. The Audit Committee reviews the interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year, the Board performed the following corporate governance matters:

- review of the corporate governance duties under the CG Code; and
- review of the compliance with the CG Code.

CORPORATE GOVERNANCE REPORT

Directors' Responsibilities for Financial Reporting in Respect of the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements are met and applicable accounting standards are complied with. The Board has received from the senior management the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Group for the year ended 31 December 2017.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Messrs Deloitte Touche Tohmatsu, is set out as follows:

	Fee paid/payable
	HK$'000
Services rendered	
Audit services	2,462

COMMUNICATIONS WITH SHAREHOLDERS

The Company's annual general meeting provides a good opportunity for communication between the Board and the Company's shareholders. Chairman of the Board and Committees are normally present to answer queries raised by shareholders. External auditors also attend the annual general meeting every year. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days before the meeting.

VOTING BY POLL

At the 2017 annual general meeting, the procedures for demanding a poll by the shareholders were incorporated in an annual general meeting circular. The procedures for demanding a poll by shareholders and for conducting a poll were also explained by the chairman at the annual general meeting.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board believes that good corporate governance is a foundation for the long-term development of the Company, and sustainable and healthy risk management and internal control systems are essential for the long-term development and growth of the Company. The Board is responsible for the establishment and maintenance of efficient and effective risk management and internal control systems by the Company to safeguard the interests of its shareholders. During the year, the Company has been engaging an external consultant to evaluate and compare the currently adopted risk management system with the general market practice so as to enhance the risk management system and further strengthen the corporate governance of the Company.

Risk Governance Structure

The Company's risk management system is designed based on a "Three Lines of Defense" model, which includes control procedures in the daily operation, continuous risk management activities and independent monitoring of internal control activities. All are interrelated with one another. Through a series of policies and procedures, clear guidance of the major internal control procedures have been embedded into the daily operations of various units. Reference has been made to the elements of governance, risk management and compliance when the policies and procedures are developed. The Company regularly reviews and updates the policies and procedures and provides relevant training to each unit to ensure the effectiveness of such policies and procedures.

Key policies and procedures of the Company include whistleblowing policy, which is formulated to provide a channel for reporting any misconduct existed in the Company, and inside information handling procedure, which is aimed to protect confidential data of employees before being made public in a fair manner and in due course.

Risk Management Systems

The Company has been adopting a risk management system in line with the international professional standards, which is an integral part of the corporate governance framework. Risk management systems include objectives establishment, identification of risk matters, risk assessment, risk responses and risk monitoring. The system is not a standalone process in which management would co-ordinate with each other to exchange market information and give appropriate responses to changes therein (such as change of operating environment and market emerging risks) in a timely manner. The Company's risk management and internal control systems seek to manage and mitigate, but not to eliminate impact of all risk matters identified on the Group.

The key elements of the Company's risk management systems are the following:

The Company has well defined duties and responsibilities of the functions of Board, management, business units, risk management and internal audit. The Board appoints the Audit Committee to oversee the effectiveness of the Company's risk management and internal control systems on an on-going basis and agree to the risk appetite and tolerance levels that the Company is willing to accept for achievement of the strategic objectives. The management confirms to the Board on the risk management and internal control systems in respect of the effectiveness, design, implementation and monitoring.

The Company, through review of the risk matters identified in the current risk registers, risk assessment questionnaires, referencing common risks in market and organizing risk workshops, assists each unit to identify risks in the areas of finance, operation, compliance and environment, etc. The identified risks are assessed in term of likelihood of occurrence and their impact to the Company. Adequacy of risk responses and related control activities are discussed in the risk assessment processes. Company key risks and their mitigation measures are identified through consolidating and rolling up risks identified in each unit. The identified Company key risks will be further discussed and confirmed by management and are reported to the Audit Committee for continuous monitoring. The key risk matters of the Company are classified into 10 categories. Details of which are set out on pages 19 to 23 of this report.

Internal Control

The internal audit department, with the assistance of the external consultant, may conduct review of the control procedures against the Company's key risks as well as independent review of key monitoring procedures. Results of audit reviews and its advice on improvement are reported to the Audit Committee on a regular basis.

Review of Risk Management and Internal Control System

The Board, through the Audit Committee, receives confirmation from the management regarding the effectiveness of the design, implementation and monitoring of the Company's risk management and internal control systems. Such systems adopted by the Company, like other systems, can only provide reasonable but not absolute assurance against significant misstatement or losses. The Company will keep maintaining a sound and healthy risk management and internal control systems to meet the long-term strategic objectives of the Company.

CORPORATE GOVERNANCE REPORT

Significant Risks of the Company

During the year, the Company identified and assessed various risks and controls in 10 different categories, including finance, economy and politics, employee, customer, supplier performance, laws and regulations, information technology, operation and management, natural disaster, media and reputation and energy and environment. Under each category, the risks impact to the Company would be assessed in terms of finance, reputation, health and safety, compliance of laws and regulations and human resources. The risk momentum of the 10 categories has been assessed and the details are described as follows:

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Finance, economy and politics	Adverse change in financial, economic and political environments in Mainland China and Hong Kong could have significant impact to the Company's financial performance	– Closely monitor market trend – Continuous monitoring on the direction of government policies and respond in timely manner – Keep a good relationship with relevant consultants to keep up with the market changes – Develop new business strategies and plans by experienced professionals of the Company to minimize the negative impact	Medium	←→ The financial, economic & political outlook in Mainland China and Hong Kong is stable
Employee	Employees are valuable assets of the Company. Failure in retaining employees and attracting skillful labours will affect the quality of products and services provided by the Company	– Make analysis on the remuneration data available in the market and provide competitive remuneration package to the staff – Develop a comprehensive performance evaluation system – Develop succession procedures for key positions – Provide training (including health and safety) and staff development programme – Actively participate in on-campus job fairs – Develop intern training course and give priority to interns who have completed training in offering job opportunities – Comprehensive insurance coverage for staff	Low to Medium	←→ No material issue has been brought to management attention

CORPORATE GOVERNANCE REPORT

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Customer	The Company is committed to provide high quality products and services to the customers in order to meet their business needs. Failure in identifying customer needs or replying customer enquiries could directly affect to the Company's earnings and long-term development	– Adequate communication with customers to understand their requirements during the project planning phase – Develop solutions by internal professionals – Take every opportunity to communicate with our customers, e.g. conference, to fully understand their needs – Develop detailed specification as required by customer in relation to each product/project and confirm with customer	Low to Medium	←→ No significant change in this area, the risk remains unchanged
Supplier Performance	Lack of mechanism on supplier performance management and association with problematic supplier may cause financial and reputation loss	– All suppliers and consultants are required to go through the well-established pre-qualification mechanism – Request to provide relevant license and job reference – Closely monitoring of the performance of suppliers and consultants	Low	←→ No significant change in this area, the risk remains unchanged
Laws and Regulations	New laws and regulations may lead to non-compliance on relevant law and regulations which may cause to reputational damage and financial loss of the Company	– Experienced team with relevant knowledge of company ordinance/listing rules in Hong Kong and Mainland China – Closely monitor the market trend and promptly respond to the changes – Provide guidelines on compliance to listing rules and company ordinance to employees – Actively seek professional advice/assistance, if necessary – Strengthen Communication with internal audit department to ensure non-compliance being addressed as soon as practicable	Low to Medium	←→ Although new law and regulations may increase the compliance costs of the Company, the impact would not be significant

CORPORATE GOVERNANCE REPORT

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Information technology	System failure, mistakes or failure in updating the latest technologies in the market may impair the customer confidence in the Company and lose the leading position in the industry which may affect the business sustainability	– Develop and comply with the relevant policies and procedures – Backup database everyday – Request operators to develop a set of disaster recovery plan – Designated team to perform regular repair and maintenance of the systems – Actively participate in industrial seminars/exhibitions – Follow with market trend and industrial study	Low to Medium	←→ The designated team stays alert with the IT security issues and the risk momentum maintains unchanged
Operation and Management	Inadequate control measures in daily operation, such as underpriced contracts, insufficient project and budgeting control, contract risk and reliance on single distribution channel, etc. may lead to reputational damages and financial loss	– Annual budget would be prepared by relevant departments and finance department hand in hand and approved by management – Submit regular work report to the management for review – Develop approval procedures – Hire employees with relevant experience – Prepare development strategies in short, medium and long term – Actively explore new distribution channels – Seek assistance from relevant professionals, if necessary – Check key control procedures independently by the audit department	Low to Medium	←→ As there is no significant change in business model, the risk momentum stays unchanged

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Natural disaster	severe disasters, such as fire, flood, outbreak of infectious diseases, etc., may affect the day-to-day operation of the Company and lead to financial loss	– Establish departmental business continuity plan and arrange the staff to continue their work in alternative site, if necessary – Make regular inspection and maintenance of fire safety facilities and other emergency equipment (such as sand bags used in flooding control) – Adequate insurance coverage	Low to Medium	←→ The risk momentum of natural disaster remains unchanged
Media and Reputation	Inappropriate handling on media promotion, advertising and media enquires may affect the Company's image and reputation	– Marketing department closely monitor the news of the Company – Establish the crisis management mechanism for the Company – Marketing team is the responsible party to handle media – Develop the spokesperson mechanism for responding to media	Low	←→ Marketing team closely monitors on various media channels and handle incidence in the timely manner. The risk remains stable
Energy and environment	Failure in controlling pollution (such as noises, waste gases and waste materials) from projects of the Company in an effective manner may have negative effect on the environment	– Strictly control pollutants arising from business operation – Promptly handle the complaint	Low	←→ Due to the industrial nature, the risk stays in a low level

1 Risk Momentum: (↑) Risk level increased; (↓) Risk level decreased; or (←→) Risk level unchanged.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are software development and providing outsourcing software services.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the five largest customers accounted for approximately 13.22% of the Group's total turnover. The five largest suppliers accounted for approximately 9.01% of the Group's total purchases. In addition, the largest customer accounted for approximately 8.8% of the Group's total turnover while the largest supplier accounted for approximately 3.16% of the Group's total purchases.

Except for Inspur Group Limited ("Inspur Corporation"), the ultimate holding company of the Company, and its subsidiaries (together referred to as "the Inspur Group"), none of the directors, their associates or any shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers. Sales to and purchases from the Inspur Group amounted to approximately 1.1% and 2.44% respectively of the total sales and total purchases of the Group for the year ended 31 December 2017.

SHARE CAPITAL

Details of movement during the year of the Company's share capital are set out in note 29 to the consolidated financial statements of the Group.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 40.

FINAL DIVIDENDS

At the Annual General Meeting ("AGM") of the Company to be held on 8 June 2018 ("Forthcoming AGM"), the Board of Directors (the "Board") will recommend a final dividend of HK$0.03 per share with aggregated amount of HK$28,582,000 (2016: HK$0.03 per share) for the year ended 31 December 2017. Subject to the approval of shareholders at the Forthcoming AGM, the final dividend will be payable on 26 June 2018 to shareholders whose name appears on the register of members of the Company on 15 June 2018.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit scheme are set out in note 37 to the consolidated financial statements of the Group.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 40 to the consolidated financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements of the Group.

CONNECTED TRANSACTIONS

Particulars of the Group's related party transactions are set out in note 38 to the consolidated financial statements of the Group, certain of which also constitute connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The connected transactions are as follows:

1. On 8 April 2004, the Company and the Inspur Group entered into a trademark licence agreement (the "Trademark Licence Agreement") which allowed the Group to use the trademark "Inspur" in Hong Kong, Taiwan and Mainland China free of charge.

   Further details of such continuing connected transaction were disclosed in the Company's prospectus dated 20 April 2004 (the "Prospectus").

   The independent non-executive directors have reviewed the above connected transaction and confirmed that the above transaction was in accordance with the relevant agreement governing the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

2. On 12 September 2016, the Company entered into a new framework agreement ("New Framework Agreement") with Inspur Group Limited, substantial shareholder, which integrate the current continuing connected transactions with Inspur Group under four categories of activities which are in line with the current business model of the Group. The major terms set out as follow:

   A. **Supply Transactions**

      On 12 September 2016, the Company and Inspur Group entered into the supplemental agreement, The maximum annual caps under Supply Transactions will not exceed RMB13,860,000, RMB16,600,000 and RMB20,000,000 for each of the financial years ended 31 December 2017, 2018 and 2019, respectively.

      Further details of such continuing connected transaction were disclosed in the Company's circular dated 27 October 2016 (the "Circular") and 12 September 2016 announcement.

      The aggregate transactions under supply transactions for the year ended 31 December 2017 amounted to approximately RMB12,668,589 (approximately HK$14,607,669).

      The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2017 and confirmed that the Supply Transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the supply transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

B. Selling Agency Transactions

The Group appoints Inspur Group to act as selling agent in the sale of the products and services of the Group. In return, the Inspur Group will receive a commission of 1% of the total sales value of the products and the services. The maximum annual caps of the value of transactions under Selling Agency Transactions will not exceed RMB396,000,000, RMB475,200,000 and RMB570,240,000 for each of the financial year ended 31 December 2017, 2018 and 2019 respectively. The expected maximum amounts of commissions to be paid by the Group to the Inspur Group will not exceed RMB3,960,000, RMB4,752,000 and RMB5,702,400 for each of the financial years ended 31 December 2017, 2018 and 2019, respectively.

Further details of such continuing connected transaction were disclosed in the Company's Circular and 12 September 2016 announcement.

The aggregate transactions under Selling Agency Transactions for the year ended 31 December 2017 amounted to RMB310,867,969 (equivalent to approximately HK$358,450,064) and the related commission amounted to RMB2,929,358 (equivalent to approximately HK$3,377,732).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2017 and confirmed that the selling agency transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the selling agency transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

C. Purchase Transactions

The Group will purchase the computer hardware and software products by the Group from the Inspur Group. The price per unit of the computer products and components purchased from Inspur Group will be agreed between parties with reference to the then prevailing markets prices of such computer hardware and software products at the relevant time.

The maximum annual caps under supply Transactions will not exceed RMB60,000,000, RMB72,000,000 and RMB86,400,000 for each of the financial years ended 31 December 2017 and 2018 and 2019, respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 27 October 2016 (the "Circular") and 12 September 2016 announcement.

The aggregate transactions under purchase transactions for the year ended 31 December 2017 amounted to RMB19,363,463 (equivalent to approximately HK$22,327,274).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2017 and confirmed that the purchase transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the purchase transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

D. Common Services Transactions

The Inspur Group shall provide office, water, heat, electricity and vehicles for use ("Common Services") by the Group. The expenses to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third partis for provision of similar services. The maximum annual amount of the expenses payable to Inspur Group for each of the three years ended 31 December 2017, 2018 and 2019 are RMB12,100,000, RMB13,310,000 and RMB14,640,000 respectively.

Further details of such continuing connected transaction were disclosed in the Circular.

The use of Common Services for the year ended 31 December 2017 amounted to approximately RMB5,214,932 (equivalent to approximately HK$6,013,141).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2017 and confirmed that the Common Services transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Common Services transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

3. Entrusted loan

The Group entered into an entrusted loan framework agreement A on 29 August 2014, pursuant to which the Group agree to provide entrustment loans to Inspur Electronic Information Industry Co., Limited (浪潮電子信息產業股份有限公司) through financial institutions. At the same time, The Group entered into an entrusted loan framework agreement B on 29 August 2014, pursuant to which the Group agree to provide entrustment loans to Inspur Software Co., Limited (浪潮軟件股份有限公司) through financial institutions.

The maximum amount (including the accrued interest) at any time outstanding under the framework agreement A shall not exceed RMB300,000,000 (equivalent to approximately HK$378,000,000). The maximum amount (including the accrued interest) at any time outstanding under the framework agreement B shall not exceed RMB200,000,000 (equivalent to approximately HK$252,000,000).

Further details of such continuing connected transaction were disclosed in the circular dated 16 October 2014 and 29 August 2014 announcement.

The aggregate transactions under entrusted loan framework agreement A for the year ended 31 December 2016 amounted RMB292,771,917 (equivalent to approximately HK$326,942,290), on 31 December 2017 amounted to nil.

During the year ended 31 December 2017, there was no entrusted loan granted to the Inspur Group. Interest charged on the entrusted loans previously granted to the Inspur Group are RMB3,500,542 (equivalent to approximately HK$4,036,342).

The amount under entrusted loan framework agreement B during the year ended 31 December 2017 amounted to nil.

The Directors (including the independent nonexecutive Directors) have reviewed the above connected transactions for the year ended 31 December 2017 and confirmed that the entrusted loan were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the entrusted loan on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

DIRECTORS' REPORT

4. The Group shall provide office for use ("Leasing Services") to Inspur Group. The expenses to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than he terms available from independent third partis for provision of similar services. The maximum annual amount of the expenses payable by Inspur Group for each of the three years ended 31 December 2015, 2016 and 2017 are RMB18,208,820, RMB31,215,119 and RMB32,775,875 respectively.

   Further details of such continuing connected transaction were disclosed in the annocement dated 29 May 2015.

   During the year ended 31 December 2017, the rental Income from Inspur Group under Leasing Services amounted to approximately RMB31,127,319 (equivalent to approximately HK$35,891,731).

   The Directors (including the independent nonexecutive Directors) have reviewed the above connected transactions for the year ended 31 December 2017 and confirmed that the Leasing Services were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Leasing Services on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

5. During the year ended 31 December 2017, the Group leased properties located in Hongkong to a fellow subsidiary of the Inspur Group which generated rental income of HK$663,732.

   The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the above connected transactions and continuing connected transactions. In addition, Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

   (i) have been approved by the Directors;

   (ii) were entered into in accordance with the pricing policies of the Company;

   (iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

   (iv) did not exceed the annual cap amounts.

   A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, the Company's reserves available for distribution are set out as below:

	2017 HK$'000
Reserves	1,074,701

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company may be distributed subject to the provision of the Company's Memorandum and Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. This share premium account may also be distributed in the form of fully paid bonus shares.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Mr. Wang Xingshan
Mr. Lee Eric Kong
Mr.Jin Xiaozhou, Joe
Mr. Dong Hailong
Mr.Samuel Y Shen*
Ms.Zhang Ruijun
Mr. Wong Lit Chor, Alexis
Mr. Ding Xiangqian

* Mr. Samuel Y. Shen resigned on 27 March 2018 as a non-executive director.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 31 December 2017, the interests and short positions of the directors and the chief executive and their associates in the shares and underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed issuers (the "Model Code") contained in the Listing Rules were as follows:

(a) Long positions in the shares of the Company

Name of director	Capacity	Number of issued ordinary of shares held	Percentage of the issued share capital of the Company
Dong Hailong	Beneficial owner	4,000	0.00%

(b) Long positions in the underlying shares of equity derivatives of the Company

Options in the Company
(Unlisted and physically settled equity derivatives)

Name of director	Capacity	Description of equity derivates	Number of underlying shares (Note)	Subscription price per share HK$
Lee Eric Kong	Owner	Share option	9,000,000	2.06

Note (1): On 1 December 2017, The share options were granted to director under the Share Option Scheme.

Save as disclosed above, as at 31 December 2017, none of the directors or the chief executive or its associates had any interests or short positions in any shares or underlying shares of equity derivatives of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, the following shareholders other than the directors of the Company had notified the Company of relevant interests in the issued capital of the Company.

(a) Long position in shares and underlying shares of the Company

Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Type of Interests	Number of issued ordinary of shares held	Percentage of the issued share capital of the Company
Inspur Group Limited	Corporate (Note 1)	481,879,286	50.58%
Inspur Overseas Investment Limited	Beneficial owner (Note 1)	288,478,000	30.28%
Inspur Cloud Computing Investment Limited	Beneficial owner (Note 1)	193,401,286	20.30%
Wang Yu Kun		66,396,000	6.96%

Note 1: Inspur Group Limited is taken to be interested in 481,879,286 shares due to its indirect 100% shareholdings in the issued share capital of Inspur Overseas Investment Limited and Inspur Cloud Computing Investment Limited.

As at 31 December 2017, no person has any other relevant interests or short positions in shares or underlying shares of equity derivatives of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SHARE OPTIONS

Details of the Company's share option schemes are set out in note 30 to the consolidated financial statements of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTEREST

During the year ended 31 December 2017, none of the directors, chief executive, initial management shareholders or its substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

DIRECTORS' REPORT

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, Ms Zhang Ruijun, Mr. Wong Lit Chor, Alexis and Mr. Ding Xiangqian. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group.

Up to the date of approval of these consolidated financial statements, the audit committee has held two meetings and has reviewed the Company's draft annual and interim financial reports and consolidated financial statements prior to recommending such reports and consolidated financial statements to the Board for approval.

The Group's audited results for the year ended 31 December 2017 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Group has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 31 December 2017, save as:

(a) Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. Mr. Wang Xingshan is both the Chairman and CEO of the Company. This structure does not comply with code provision A.2.1 of the Code. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation.

(b) Under code provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Partial Directors were unable to attend the annual general meeting as they were obliged to be away for business trips. The Company will improve its meeting scheduling and arrangement in order to ensure full compliance with Code A.6.7 in future.

INDEPENDENCE OF INDEPENDENT NONEXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 3.13 of the Listing Rules and all independent non-executive directors are considered to be independent.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31 December 2017.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) The register of members will be closed from 7 June 2018 to 8 June 2018 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor 1712-1716 room, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 6 June 2018.

(ii) The register of members will be closed from 14 June 2018 to 15 June 2018 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor 1712-1716 room, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 June 2018.

AUDITOR

A resolution will be submitted to the annual general meeting to reappoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company. There has been no change in the auditor of the Company since its incorporation on 29 January 2003.

On behalf of the Board
Wang Xingshan
CHAIRMAN

26th March 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Inspur International Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 40 to 113, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF INSPUR INTERNATIONAL LIMITED (continued)
浪潮國際有限公司
(incorporated in Cayman Islands with limited liability)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of software development contracts	
We identified revenue recognition in connection with software development contracts as a key audit matter due to management judgements required in the estimation of the outcome and the stage of completion of software development work. Revenue in connection with software development contracts is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Notwithstanding that management reviews and revises the estimates of contract revenue for the software development contracts as the contract progresses, the actual outcome of the contract in terms of its total revenue may be higher or lower than the estimations and this will affect the revenue and profit recognised. Details relating to the Group's revenue arising from software development contracts are set out in note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognition of software development contracts included: • Evaluating the key controls over the preparation of estimated total contract costs and determination of stage of completion relating to the software development contracts; • Interviewing the project managers of selected software development projects, on a sample basis, to obtain an understanding of the contract work status and evaluating the reasonableness of estimated total contract costs; • Testing, on a sample basis, the total contract sum, the estimated total contract costs and contract costs incurred for the work performed to date against the supporting documents; and • Checking the computation of the percentage of completion based on contract costs incurred for the work performed to date relative to the estimated total contract costs and checking whether contract revenue was recognised properly based on the percentage of completion.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF INSPUR INTERNATIONAL LIMITED (continued)
浪潮國際有限公司
(incorporated in Cayman Islands with limited liability)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified valuation of investment properties as a key audit matter due to subjective judgements and estimates required in determining the fair value. As at 31 December 2017, the Group's investment properties which comprised the office premises located in Jinan, Shandong Province, and Hong Kong were stated at fair value of HK$568 million (approximately 19% of the Group's total assets). The Group's investment properties located in Jinan, accounting for approximately 95.7% of the carrying amount of the investment properties, are measured by the directors of the Company using the fair value model based on a valuation performed by a firm of professional valuers (the "Valuer"). In determining the fair value of the investment properties, the Valuer has applied an income capitalisation approach which involves, inter-alia, certain estimates, including appropriate term yield, reversionary yield, and market rent of comparable properties. Details relating to the Group's investment properties are set out in note 15 to the consolidated financial statements.	Our procedures in relation to the valuation of investment properties included: • Discussing with management to understand its plan on the use and valuation process of the investment properties; • Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work; and • Engaging our internal valuation expert to assist evaluating the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industries; the appropriateness of the Valuer's valuation approach against the industry norms; and the accuracy and relevance of key data inputs underpinning the valuation, such as rental income and term of existing leases, by comparing to supporting documents.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF INSPUR INTERNATIONAL LIMITED (continued)
浪潮國際有限公司
(incorporated in Cayman Islands with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF INSPUR INTERNATIONAL LIMITED (continued)
浪潮國際有限公司
(incorporated in Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF INSPUR INTERNATIONAL LIMITED (continued)
浪潮國際有限公司
(incorporated in Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chiu Sze Kei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**1,317,951**	1,163,170
Cost of sales		**(886,279)**	(821,009)
Gross profit		**431,672**	342,161
Other income	7	**136,334**	155,199
Other gains and losses, net	7	**36**	544
Administrative expenses		**(298,594)**	(277,353)
Selling and distribution expenses		**(200,955)**	(182,653)
Change in fair value of investment properties	15	**18,016**	20,677
Share of profit of an associate		**37,849**	31,485
Share of profit (loss) of a joint venture		**2,772**	(2,323)
Profit before tax		**127,130**	87,737
Income tax expenses	8	**(17,561)**	(27,163)
Profit for the year	9	**109,569**	60,574
Profit for the year attributable to owners of the Company		**113,051**	59,893
(Loss) profit for the year attributable to non-controlling interests		**(3,482)**	681
Profit for the year		**109,569**	60,574
Earnings per share	13		
– Basic		**HK12.30 cents**	HK6.64 cents
– Diluted		**HK12.20 cents**	HK6.63 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	**109,569**	60,574
Other comprehensive income (expense):		
Items that will not be reclassified to profit or loss:		
Gain on revaluation upon transfer from property, plant and equipment to investment properties	**1,688**	33,845
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	**(390)**	(7,653)
Share of other comprehensive income (expense) of an associate and a joint venture	**20,953**	(32,409)
Exchange differences arising on translation to presentation currency	**126,300**	(110,050)
	148,551	(116,267)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(7,207)**	6,804
	(7,207)	6,804
Other comprehensive income (expense) for the year, net of income tax	**141,344**	(109,463)
Total comprehensive income (expense) for the year	**250,913**	(48,889)
Total comprehensive income (expense) for the year attributable to:		
– Owners of the Company	**254,217**	(49,357)
– Non-controlling interests	**(3,304)**	468
	250,913	(48,889)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	31 December 2017 HK$'000	31 December 2016 HK$'000
Non-current assets			
Property, plant and equipment	14	323,331	312,869
Investment properties	15	567,920	506,568
Prepaid lease payments	16	34,017	32,447
Other intangible assets	17	—	—
Available-for-sale investment	18	21,582	20,067
Interest in an associate	19	150,116	102,926
Interest in a joint venture	20	145,558	131,174
		1,242,524	1,106,051
Current assets			
Inventories	21	12,586	8,294
Trade and bill receivables	22	159,209	160,784
Prepaid lease payments	16	880	818
Prepayments, deposits and other receivables		73,720	78,806
Amounts due from customers for contract work	23	86,283	46,284
Entrusted loan receivables	24	—	326,942
Amount due from ultimate holding company	27	1,429	295
Amounts due from fellow subsidiaries	27	115,106	58,459
Pledged bank deposits	25	14,126	18,449
Bank balances and cash	25	1,350,777	852,975
		1,814,116	1,552,106
Current liabilities			
Trade and bill payables	26	114,589	96,184
Other payables, deposits received and accrued expenses		439,642	479,857
Amounts due to customers for contract work	23	242,498	188,819
Amount due to ultimate holding company	28	2,952	13,409
Amounts due to fellow subsidiaries	28	27,349	27,855
Deferred income - government grants	31	70,280	49,753
Taxation payable		20,174	12,852
		917,484	868,729
Net current assets		896,632	683,377
Total assets less current liabilities		2,139,156	1,789,428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	31 December 2017 HK$'000	31 December 2016 HK$'000
Non-current liabilities			
Deferred income - government grants	31	5,699	12,467
Deferred tax liabilities	32	52,171	42,370
		57,870	54,837
		2,081,286	1,734,591
Capital and reserves			
Share capital	29	9,527	9,015
Reserves		2,067,510	1,725,316
Equity attributable to owners of the Company		2,077,037	1,734,331
Non-controlling interests		4,249	260
Total equity		2,081,286	1,734,591

The consolidated financial statements on pages 40 to 113 were approved and authorised for issue by the Board of Directors on 26 March 2018 and are signed on its behalf by:

Wang Xingshan
DIRECTOR

Dong Hailong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note a)	Special reserve HK$'000 (Note b)	Share option reserve HK$'000	Translation reserve HK$'000	Revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 31 December 2015	9,015	953,077	(2,634)	92	40,550	152,309	44,482	592,696	1,789,587	1,165	1,790,752
Profit for the year	–	–	–	–	–	–	–	59,893	59,893	681	60,574
Other comprehensive income (expense)	–	–	–	–	–	(135,442)	26,192	–	(109,250)	(213)	(109,463)
Total comprehensive income (expense) for the year	–	–	–	–	–	(135,442)	26,192	59,893	(49,357)	468	(48,889)
Dividend paid (note 12)	–	–	–	–	–	–	–	(27,046)	(27,046)	–	(27,046)
Cancellation of share options (note 30)	–	–	–	–	(527)	–	–	527	–	–	–
Recognition of equity-settled share-based payments (note 30)	–	–	–	–	21,147	–	–	–	21,147	–	21,147
Repurchase of paid-up capital of a subsidiary	–	–	–	–	–	–	–	–	–	(1,373)	(1,373)
	–	–	–	–	20,620	(135,442)	26,192	33,374	(55,256)	(905)	(56,161)
At 31 December 2016	9,015	953,077	(2,634)	92	61,170	16,867	70,674	626,070	1,734,331	260	1,734,591
Profit for the year	–	–	–	–	–	–	–	113,051	113,051	(3,482)	109,569
Other comprehensive income	–	–	–	–	–	138,335	2,831	–	141,166	178	141,344
Total comprehensive income (expense) for the year	–	–	–	–	–	138,335	2,831	113,051	254,217	(3,304)	250,913
Contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	7,293	7,293
Issuance of shares upon exercise of share options	512	81,354	–	–	–	–	–	–	81,866	–	81,866
Dividend paid (note 12)	–	–	–	–	–	–	–	(27,046)	(27,046)	–	(27,046)
Forfeiture of options (note 30)	–	–	–	–	(1,006)	–	–	1,006	–	–	–
Cancellation of share options (note 30)	–	–	–	–	(84,406)	–	–	84,406	–	–	–
Recognition of equity-settled share-based payments (note 30)	–	–	–	–	33,669	–	–	–	33,669	–	33,669
	512	81,354	–	–	(51,743)	138,335	2,831	171,417	342,706	3,989	346,695
At 31 December 2017	9,527	1,034,431	(2,634)	92	9,427	155,202	73,505	797,487	2,077,037	4,249	2,081,286

Notes:

(a) Other reserve arose from the acquisition of partial interest in a subsidiary in prior years without changes in control.

(b) The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the reorganisation prior to the listing of the Company's shares in 2003.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit for the year	**109,569**	60,574
Adjustments for:		
Income tax expenses	**17,561**	27,163
Share of profit of an associate	**(37,849)**	(31,485)
Share of (profit) loss of a joint venture	**(2,772)**	2,323
Interest income on entrusted loan receivables	**(4,036)**	(10,751)
Interest income on bank deposits	**(22,577)**	(16,091)
Change in fair value of investment properties	**(18,016)**	(20,677)
Dividend income from available-for-sale investment	**(1,314)**	(2,861)
Depreciation of property, plant and equipment	**25,727**	29,561
Amortisation of prepaid lease payments	**845**	856
Net gain on disposal and written off of property, plant and equipment	**(210)**	(12)
Allowance for bad and doubtful trade and other debts	**10,465**	6,035
Reversal of allowance for bad and doubtful debts	**—**	(13,768)
Government subsidies and grants	**(9,667)**	(31,407)
Recognition of equity-settled share-based payments	**33,669**	21,147
Impairment loss on amounts due from customers for contract work	**1,015**	8,954
Operating cash flows before movements in working capital	**102,410**	29,561
Decrease (increase) in inventories	**359**	(6,773)
Decrease (increase) in trade and bill receivables	**6,417**	(44,569)
Decrease (increase) in prepayments, deposits and other receivables	**7,084**	(34,063)
Increase in amounts due from customers for contract work	**(36,064)**	(31,861)
(Increase) decrease in amounts due from fellow subsidiaries	**(49,939)**	75,999
(Increase) decrease in amount due from ultimate holding company	**(1,362)**	958
Increase (decrease) in trade and bill payables	**10,701**	(30,661)
(Decrease) increase in other payables, deposits received and accrued expenses	**(88,723)**	39,999
Increase in amounts due to customers for contract work	**37,855**	82,208
Increase in amounts due to fellow subsidiaries	**932**	5,464
Increase (decrease) in amount due to ultimate holding company	**976**	(234)
Receipts of government subsidies and grants	**18,369**	57,170
Cash generated from operations	**9,015**	143,198
Income taxes paid	**(4,307)**	(10,186)
NET CASH FROM OPERATING ACTIVITIES	**4,708**	133,012

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	31 December 2017 HK$'000	31 December 2016 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,027)	(18,118)
Entrusted loans advanced to a fellow subsidiary		—	(677,599)
Repayment of entrusted loans and related interest received from a fellow subsidiary		341,621	346,313
Interest received		22,577	16,091
Withdrawal of pledged bank deposits		12,711	18,079
Placement of pledged bank deposits		(8,030)	(22,708)
Proceeds from disposal of property, plant and equipment		420	661
Dividend received from available-for-sale investment		1,314	2,861
Dividend received from an associate		—	48,831
Advance to fellow subsidiaries		(48,639)	—
Repayment from fellow subsidiaries		48,427	3,590
Advance to ultimate holding company		—	(112)
Repayment from ultimate holding company		295	—
Repurchase of paid-up capital of a subsidiary		—	(1,373)
Acquisition of a subsidiary	38	(4,796)	—
NET CASH FROM (USED IN) INVESTING ACTIVITIES		364,873	(283,484)
FINANCING ACTIVITIES			
Proceeds from exercise of share options		81,866	—
Dividend paid to ordinary shareholders		(27,046)	(27,046)
Capital injection from other investors of a subsidiary		7,293	—
Repayment to ultimate holding company	35	(11,988)	13,190
Repayment to fellow subsidiaries	35	(3,436)	(18,980)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		46,689	(32,836)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		416,270	(183,308)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		852,975	1,095,218
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		81,532	(58,935)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash		1,350,777	852,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Inspur International Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, Inspur Overseas Investment Limited ("Inspur Overseas"), a company incorporated in the British Virgin Islands ("BVI") and Inspur Group Limited ("IPG"), a company established in the People's Republic of China are the immediate holding company and ultimate holding company of the Company, respectively. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The functional currency of the Company is Renminbi ("RMB"). For the convenience of the consolidated financial statement users, the consolidated financial statements are presented in Hong Kong Dollar ("HK$"), as the Company's shares are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of the subsidiaries (together with the Company, referred to as the "Group") are sales of Information Technology ("IT") peripherals and software, software development and provision of software outsourcing services.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 35. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 35, the application of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle[1]
Amendments to HKFRs	Annual Improvements to HKFRS Standards 2015 - 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
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 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Unlisted investment classified as available-for-sale investment carried at cost less impairment as disclosed in note 18: this investment qualifies for designation as measured at FVTOCI under HKFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will not be subsequently reclassified to profit or loss under HKFRS 9. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments (continued)

Impairment:

- In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

- Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not be materially increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and bill receivables, amounts due from customers for contract work and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$25,058,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$2,139,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors of the Company anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

3. SIGNIFICANT ACCOUNTING POLICIES

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 of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in highest and best use or by selling it to another market participant that would use the asset in highest and best use.

For investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principle accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Allocation of total comprehensive income to non-controlling interests

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost initial recognition of an investment in an associate or a joint venture.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investments in an associate and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate and joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in an associate and a joint venture (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, other similar allowances and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from provision of software outsourcing services are recognised when services are provided.

The Group's accounting policy for the recognition of revenue from software development contracts is described in the accounting policy for software development contracts below.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the Group's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Value Added Tax ("VAT") refund is recognised as income when the Group's rights to receive the VAT refund has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Software development contracts

Where the outcome of a software development contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a software development contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade receivables.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and building held for administrative purposes other than properties under construction as described below are stated in the consolidated financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction and less their estimated residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees, the amortisation of prepaid lease payments provided during the construction period and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated from their functional currencies into the presentation currency of the Company (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate). On deconsolidation of a group entity which is not a foreign operation, exchange differences which were accumulated in the translation reserve arising from translating the assets and liabilities of the relevant entity into the presentation currency of the Group, will be transferred directly to retained profits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purpose of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight line basis over their estimated useful lives.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss in the period when the asset is derecognised.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the relevant amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets comprise loans and receivables and available-for-sale financial assets. The accounting policies are set out below. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bill receivables, deposits and other receivables, amounts due from ultimate holding company and fellow subsidiaries, entrusted loan receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividend is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets

Loans and receivable and available-for-sale financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, the amount of the impairment loss recognised is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For available-for-sale financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables, if in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instrument

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bill payables, other payables and amounts due to ultimate holding company and fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risk and reward of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases and related management fee are recognised in profit or loss on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the relevant lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

When the share options are cancelled during the vesting period, the cancellation was accounted for as an acceleration of vesting, and the Group recognises immediately in profit or loss the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and other retirement benefit schemes managed by the government in the People's Republic of China are charged as expenses when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purpose of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

As a result, the Group has not recognised any deferred tax on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of its investment properties. In respect of those investment properties located in the Mainland China (the "PRC"), the Group recognised additional deferred taxes relating to Land Appreciation Tax and the PRC Enterprise Income Tax on changes in fair value of such investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Software development contracts

The Group recognises contract revenue and profit on a software development contract according to management's estimation of the total outcome of the project as well as the percentage of completion of software development work. Revenue and costs in connection with software development contracts are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Notwithstanding that management reviews and revises the estimates of both contract revenue and costs for the software development contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

Estimation of fair value of investment properties

At the end of the reporting period, the Group's investment properties in the PRC are stated at fair value of HK$543,520,000 (2016: HK$485,268,000) based on a valuation performed by a firm of professional valuers ("Valuer"). The Valuer has applied income capitalisation approach which involves, inter-alia, certain estimates, including appropriate term yield, reversionary yield and market rent of comparable properties. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation are reflective of the current market conditions and the current condition of the properties. Changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the amount of fair value gain or loss of the Group's investment properties reported in the consolidated statement of profit or loss.

Estimated impairment of trade and bill receivables, entrusted loan receivables and amounts due from ultimate holding company and fellow subsidiaries

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade and bill receivables is HK$159,209,000 (net of allowance for doubtful debts of HK$37,590,000) (2016: carrying amount of HK$160,784,000, net of allowance for doubtful debts of HK$28,420,000). Additionally, as at 31 December 2017, the carrying amounts of amounts due from ultimate holding company and fellow subsidiaries are HK$1,429,000 (2016: HK$295,000) and HK$115,106,000 (2016: HK$58,459,000), respectively. As at 31 December 2017, the carrying amount of entrusted loan receivable is nil (2016: HK$326,942,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE

Revenue represents revenue arising on software development contracts and software outsourcing contracts. An analysis of the Group's revenue for the year is as follows:

	2017 HK$'000	2016 HK$'000
Revenue from software development contracts		
- sales of IT peripherals and software	**206,600**	201,732
- provision of software development service	**834,716**	627,107
Revenue from software outsourcing contracts	**276,635**	334,331
	1,317,951	1,163,170

6. SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 "Operating Segments" are as follows:

1. Enterprise Resource Management ("ERM") related business

2. Software outsourcing business

ERM related business segment was formerly known as Software Development and Solution segment. The chief operating decision maker considers that categorising the segment as ERM related business better reflects the nature of the Group's current service offerings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results and information about reportable and operating segments.

For the year ended 31 December 2017

	ERM related business HK$'000	Software outsourcing business HK$'000	Consolidated HK$'000
Segment revenue	1,041,316	276,635	1,317,951
Segment profit (loss)	124,228	(23,352)	100,876
Other income, gains and losses, net			42,430
Change in fair value of investment properties			18,016
Share of profit of an associate			37,849
Share of profit of a joint venture			2,772
Share-based payments			(33,669)
Amortisation of prepaid lease payments			(845)
Central administrative costs			(40,299)
Profit before tax			127,130

For the year ended 31 December 2016

	ERM related business HK$'000	Software outsourcing business HK$'000	Consolidated HK$'000
Segment revenue	828,839	334,331	1,163,170
Segment profit (loss)	62,821	(17,160)	45,661
Other income, gains and losses, net			59,058
Change in fair value of investment properties			20,677
Share of profit of an associate			31,485
Share of loss of a joint venture			(2,323)
Share-based payments			(21,147)
Amortisation of prepaid lease payments			(856)
Central administrative costs			(44,818)
Profit before tax			87,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

All of the segment revenues reported for both years were from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of certain amounts of other income including rental income and interest income on bank deposits and entrusted loan receivables, other gains and losses, change in fair value of investment properties, share of profit of an associate, share of loss of a joint venture, share-based payments, amortisation of prepaid lease payments and central administration costs including directors' remuneration. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

At 31 December 2017

	ERM related business HK$'000	Software outsourcing business HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	481,721	118,416	600,137
Property, plant and equipment			297,189
Investment properties			567,920
Prepaid lease payments			34,897
Interest in an associate			150,116
Interest in a joint venture			145,558
Bank balances and cash			1,253,215
Other unallocated assets			7,608
Consolidated total assets			3,056,640
LIABILITIES			
Segment liabilities	819,697	80,547	900,244
Deferred tax liabilities			50,062
Other unallocated liabilities			25,048
Consolidated total liabilities			975,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

At 31 December 2016

	ERM related business HK$'000	Software outsourcing business HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	636,621	118,963	755,584
Property, plant and equipment			290,646
Investment properties			506,568
Prepaid lease payments			33,265
Interest in an associate			102,926
Interest in a joint venture			131,174
Entrusted loan receivables			326,942
Bank balances and cash			491,250
Other unallocated assets			19,802
Consolidated total assets			2,658,157
LIABILITIES			
Segment liabilities	699,512	89,624	789,136
Deferred tax liabilities			40,410
Other unallocated liabilities			94,020
Consolidated total liabilities			923,566

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than certain amounts of property, plant and equipment and investment properties, prepaid lease payments, interest in an associate, interest in a joint venture, entrusted loan receivables, bank balances and cash and other unallocated assets including amounts due from related parties, prepayments, deposits and other receivables.

- all liabilities are allocated to operating and reportable segments, other than certain deferred tax liabilities and other liabilities including amounts due to related parties and other payables in relation to corporate administrative expenses.

6. SEGMENT INFORMATION (continued)

Other segment information

For the year ended 31 December 2017

Amounts included in the measure of segment profit or segment assets:

	ERM related business HK$'000	Software outsourcing business HK$'000	Total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	15,731	902	16,633	442	17,075
Depreciation of property, plant and equipment	7,894	2,381	10,275	15,452	25,727
Allowance for bad and doubtful trade and other debts	10,362	103	10,465	—	10,465
Impairment loss on amounts due from customers for contract work	1,015	—	1,015	—	1,015

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets and not allocated to any operating and reportable segment:

	HK$'000
Interest in an associate	150,116
Interest in a joint venture	145,558
Share of profit of an associate	37,849
Share of profit of a joint venture	2,772

For the year ended 31 December 2016

Amounts included in the measure of segment profit or segment assets:

	ERM related business HK$'000	Software outsourcing business HK$'000	Total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	13,370	2,519	15,889	2,229	18,118
Depreciation of property, plant and equipment	6,638	2,334	8,972	20,589	29,561
Allowance for bad and doubtful trade and other debts	6,035	—	6,035	—	6,035
Reversal of allowance for bad and doubtful debts	(13,768)	—	(13,768)	—	(13,768)
Impairment loss on amounts due from customers for contract work	8,954	—	8,954	—	8,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

Other segment information (continued)

For the year ended 31 December 2016 (continued)

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets and not allocated to any operating and reportable segment:

	HK$'000
Interest in an associate	102,926
Interest in a joint venture	131,174
Share of profit of an associate	31,485
Share of loss of a joint venture	(2,323)

Geographical information

The Group's operations are currently carried out in the People's Republic of China, the country of domicile except for some services rendered by the provision of software outsourcing segment which are located in other regions.

Information about the Group's revenue from external customers is presented based on location of customers irrespective of the origin of the services. Information about the Group's non-current assets* is by geographic location of assets.

	Revenue from external customers		Non-current assets*	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Country of domicile				
- Mainland China	1,156,974	950,955	1,187,186	1,054,319
- Hong Kong	—	—	32,219	29,543
	1,156,974	950,955	1,219,405	1,083,862
Others	160,977	212,215	1,537	2,122
	1,317,951	1,163,170	1,220,942	1,085,984

* Non-current assets excluded those relating to available-for-sale investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2017 HK$'000	2016 HK$'000
Customer A[1]	N/A[2]	177,147

[1] Revenue was generated from software outsourcing segment.

[2] The relevant amount in 2017 is less than 10% of the total sales of the Group.

7. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	2017 HK$'000	2016 HK$'000
Other income		
Interest income on bank deposits	22,577	16,091
Interest income on entrusted loan receivables	4,036	10,751
VAT refund (Note a)	61,506	61,350
Government subsidies and grants (Note b)	9,667	31,407
Dividend income from available-for-sale investment	1,314	2,861
Rental income	33,627	32,487
Management fee	3,503	—
Others	104	252
	136,334	155,199
Other gains and losses, net		
Net foreign exchange (loss) gain	(174)	532
Net gain on disposal and written off of property, plant and equipment	210	12
	36	544

Notes:

(a) Inspur (Shandong) Electronics Information Company Limited ("Inspur Shandong Electronics") and Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft") are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, it is entitled to a refund of VAT paid for sales of self-developed software in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. OTHER INCOME, OTHER GAINS AND LOSSES, NET (continued)

Notes: (continued)

(b) For the year ended 31 December 2017, income of approximately HK$9,321,000 (2016: HK$3,309,000) represents the subsidies from the relevant government authorities for the purpose of encouraging the development of the group entities engaged in new and high technology sector. The subsidies received are in substance a kind of immediate financial support to the group entities with no future related costs and are recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to these subsidies.

For the year ended 31 December 2017, income of approximately HK$346,000 (2016: HK$28,098,000) represents the grants from the relevant government authorities for funding certain development projects undertaken by the group entities. The grants received are recognised as income when i) the related projects have been completed, ii) the evaluation of the project results by the relevant government authority has been completed and iii) no other future conditions are required to fulfil by the Group.

8. INCOME TAX EXPENSES

	2017 HK$'000	2016 HK$'000
Current tax		
PRC Enterprise Income Tax ("EIT")	10,609	11,127
Underprovision in prior years		
EIT	—	4,143
Deferred taxation (note 32)	6,952	11,893
	17,561	27,163

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profit for both years. No provision for Hong Kong profits tax has been made in the consolidated financial statements in both years as there are no assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for Inspur Genersoft.

Inspur Genersoft is recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15% for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. INCOME TAX EXPENSES (continued)

Pursuant to the Notice of the Ministry of Industry and Information Technology, the Ministry of Finance, the State Taxation Administration and National Development Reform Commission on Relevant Issues Concerning the Preferential Policies on Enterprise Income Tax of Software and Integrated Circuit Industry ("Cai Shui 2016 No. 49") and the Notice of the Ministry of Finance and the State Taxation Administration on Further Encouraging the Development of Enterprise Income Tax Policies for the Software Industry and Integrated Circuit Industry ("Cai Shui 2012 No. 27"), Inspur Genersoft is designated as a qualified software enterprise and therefore entitled to apply a reduced tax rate of 10% subject to annual approval. As a result, Inspur Genersoft applies a reduced tax rate of 10% for the year ended 31 December 2017.

The income tax expenses for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	127,130	87,737
Tax at PRC EIT rate of 25% (2016: 25%) (Note)	31,783	21,934
Tax effect of share of profit of an associate	(9,462)	(7,871)
Tax effect of share of (profit) loss of a joint venture	(693)	581
Tax effect of expenses not deductible for tax purpose	8,278	10,439
Tax effect of income not taxable for tax purpose	—	(1,823)
Tax effect of tax losses and deductible temporary differences not recognised	6,094	4,203
Tax effect of change in fair value of investment properties	(4,504)	(5,169)
Utilisation of tax losses previously not recognised	(4,295)	(3,570)
Underprovision in respect of previous years	—	4,143
EIT concessionary rate	(16,592)	(7,397)
Deferred tax on withholding tax arising from PRC subsidiaries	(142)	(3,739)
Deferred tax on change in fair value of investment properties in PRC	7,094	15,632
Others	—	(200)
Income tax expenses for the year	17,561	27,163

Note: The EIT rate is used as it is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

At the end of the reporting period, the Group had unused tax losses of HK$53,435,000 (2016: HK$92,033,000), subject to approval of relevant tax authorities, available for offset against future profits. No deferred tax asset has been recognised in respect of such losses at the end of the reporting period, due to the unpredictability of future profit streams. Tax losses of HK$31,555,000 (2016: HK$78,863,000) will expire in various years before 2022 (2016: 2021). Other tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2,462**	1,800
Allowance for doubtful trade and other debts	**10,465**	6,035
Reversal of allowance for doubtful trade and other debts	**—**	(13,768)
Impairment loss on amounts due from customers for contract work	**1,015**	8,954
Research and development costs recognised as expense	**61,677**	111,328
Cost of inventories recognised as expense in cost of sales	**180,240**	141,605
Depreciation for property, plant and equipment	**25,727**	29,561
Change in fair value of investment properties	**(18,016)**	(20,677)
Amortisation of prepaid lease payments	**845**	856
Directors' remuneration (note 10)	**5,841**	5,035
Other staff costs		
Salaries and other benefits	**546,668**	507,989
Share-based payments	**30,758**	18,948
Retirement benefits scheme contributions	**96,982**	105,692
	680,249	637,664
Operating lease rentals in respect of office premises and staff quarters	**25,267**	15,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and disclosure requirements of CO, as follows:

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share based payments HK$'000	Total HK$'000
For the year ended 31 December 2017					
Executive Directors (Note 1)					
Wang Xingshan (Note 2)	300	600	61	1,285	2,246
Lee Eric Kong (Note 3)	—	521	—	343	864
Jin Joe Xiaozhou	—	1,059	149	721	1,929
Non-Executive Directors (Note 4)					
Samuel Y. Shen	—	—	—	118	118
Dong Hailong	—	—	—	118	118
Independent Non-Executive Directors (Note 5)					
Wong Lit Chor, Alexis	120	—	—	128	248
Zhang Ruijun	60	—	—	118	178
Ding Xiangqian	60	—	—	80	140
Total	540	2,180	210	2,911	5,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share based payments HK$'000	Total HK$'000
For the year ended 31 December 2016					
Executive Directors (Note 1)					
Wang Xingshan (Note 2)	300	665	56	1,305	2,326
Jin Joe Xiaozhou	—	1,449	126	458	2,033
Non-Executive Directors (Note 4)					
Samuel Y. Shen	—	—	—	95	95
Dong Hailong	—	—	—	95	95
Independent Non-Executive Directors (Note 5)					
Wong Lit Chor, Alexis	120	—	—	151	271
Zhang Ruijun	60	—	—	95	155
Ding Xiangqian	60	—	—	—	60
Total	540	2,114	182	2,199	5,035

Notes:

(1) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

(2) Wang Xingshan is the Chief Executive. His emoluments disclosed above include those for services rendered by him as the Chief Executive.

(3) Lee Eric Kong was appointed as an executive director on 1 August 2017.

(4) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

(5) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During the year ended 31 December 2017, 5,300,000 (2016: 1,600,000) share options were granted to certain directors of the Company in respect of their services to the Group under the Option Scheme (as defined in note 30). Details of the share options scheme are set out in note 30 to the consolidated financial statements. The share-based payments represent the grant date fair value of share options granted under the Option Scheme amortised over the vesting period and is recognised in the consolidated statement of profit or loss during the year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, two (2016: two) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2016: three) highest paid individuals were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	4,065	2,512
Share-based payments	—	1,639
Retirement benefit scheme contributions	18	268
	4,083	4,419

Their remuneration were within the following bands:

	2017 No. of employees	2016 No. of employees
HK$1,000,001 to HK$1,500,000	2	2
HK$1,500,001 to HK$2,000,000	1	1
	3	3

During the year ended 31 December 2017, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 30 to the consolidated financial statements.

No remuneration was paid by the Group to any of the five highest paid individuals or directors as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

12. DIVIDEND

	2017 HK$'000	2016 HK$'000
Dividends recognised as distribution during the year: 2016 final dividend - HK$0.03 (2016: 2015 final dividend - HK$0.03) per ordinary share	27,046	27,046

Subsequent to the end of the reporting period, a final dividend of HK$0.03 in respect of the year ended 31 December 2017 (2016: final dividend of HK$0.03 in respect of the year ended 31 December 2016) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. DIVIDEND (continued)

	2017 HK$'000	2016 HK$'000
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2017 of HK$0.03 (2016: HK$0.03) per ordinary share on 952,736,000 (2016: 901,536,000) shares	28,582	27,046

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the profit for the year attributable to owners of the Company and on the number of shares as follows:

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

	2017 HK$'000	2016 HK$'000
Earnings		
Profit for the year attributable to the owners of the Company	113,051	59,893

	2017 '000	2016 '000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	918,837	901,536
Effect of dilutive potential ordinary shares arising from the outstanding share options	7,837	1,462
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	926,674	902,998

The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the exercise of the Company's share options granted on 10 December 2010, and the computation of diluted earnings per share for the year ended 31 December 2016 did not assume the exercise of the Company's share options granted on 10 December 2010 and 16 July 2015, since the exercise prices of those share options were higher than the average market price for shares during the relevant years.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Specialised equipment HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At 1 January 2016	377,305	123,947	5,816	17,052	31,327	1,688	557,135
Additions	3,173	4,477	818	6,939	2,711	–	18,118
Disposals/written off	–	–	–	(1,234)	(689)	(505)	(2,428)
Transfer to investment properties	(126,435)	(39,013)	–	–	–	–	(165,448)
Exchange adjustments	(18,332)	(6,341)	(807)	(1,354)	(2,180)	(61)	(29,075)
At 31 December 2016	235,711	83,070	5,827	21,403	31,169	1,122	378,302
Additions	–	436	2,342	13,459	838	–	17,075
Disposals/written off	–	–	–	(561)	(454)	–	(1,015)
Transfer to investment properties	(3,755)	(1,159)	–	–	–	–	(4,914)
Exchange adjustments	17,300	7,547	646	2,151	3,966	98	31,708
At 31 December 2017	249,256	89,894	8,815	36,452	35,519	1,220	421,156
ACCUMULATED DEPRECIATION							
At 1 January 2016	4,734	12,970	5,816	3,108	23,172	1,547	51,347
Charge for the year	8,064	12,277	569	5,859	2,672	120	29,561
Eliminated on disposals/written off	–	–	–	(648)	(642)	(489)	(1,779)
Eliminated on transfer to investment properties	(3,898)	(5,208)	–	–	–	–	(9,106)
Exchange adjustments	(410)	(1,049)	(669)	(457)	(1,949)	(56)	(4,590)
At 31 December 2016	8,490	18,990	5,716	7,862	23,253	1,122	65,433
Charge for the year	5,685	9,172	28	6,906	3,936	–	25,727
Eliminated on disposals/written off	–	–	–	(372)	(433)	–	(805)
Eliminated on transfer to investment properties	(216)	(293)	–	–	–	–	(509)
Exchange adjustments	1,868	1,926	395	1,112	2,580	98	7,979
At 31 December 2017	15,827	29,795	6,139	15,508	29,336	1,220	97,825
CARRYING VALUES							
At 31 December 2017	233,429	60,099	2,676	20,944	6,183	–	323,331
At 31 December 2016	227,221	64,080	111	13,541	7,916	–	312,869

During the year ended 31 December 2017, the transfer of leasehold land and building and leasehold improvements to investment property with carrying amount of HK$4,405,000 (2016: HK$156,342,000) is made when there is a change in use which is evidenced by commencement of an operating lease to a third party or related party. The fair value of these leasehold land and building and leasehold improvements at the date of transfer was HK$6,093,000 (2016: HK$190,187,000), resulting in recognition of surplus on revaluation of HK$1,688,000 (2016: HK$33,845,000 in other comprehensive income and accumulated in revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated, after taking into account of their estimated residual values, on a straight-line basis at the following rates per annum:

Leasehold land and building	Over the shorter of the term of the lease and 15 - 50 years
Leasehold improvements	10% - 25%
Specialised equipment	20% - 25%
Machinery and equipment	10% - 20%
Furniture, fixtures and office equipment	10% - $33^1/_3$%
Motor vehicles	10% - 20%

The leasehold land and building held by the Group is situated in Hong Kong. As the leasehold interest in land cannot be allocated reliably between the land and building elements, the leasehold interest in land continued to be accounted for as property, plant and equipment.

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2016	324,606
Transfer from property, plant and equipment	190,187
Change in fair value of investment properties	20,677
Exchange adjustments	(28,902)
At 31 December 2016	**506,568**
Transfer from property, plant and equipment	**6,093**
Change in fair value of investment properties	**18,016**
Exchange adjustments	**37,243**
At 31 December 2017	**567,920**

All of the Group's property interests held to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2017 was HK$567,920,000 (2016: HK$506,568,000). The fair value of the investment properties included the land components of the properties in Hong Kong. The fair value has been arrived at based on a valuation carried out by Asset Appraisal Limited, a firm of professional valuers not connected with the Group.

15. INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	At 31.12.2017		At 31.12.2016	
	Level 3	**Fair value**	Level 3	Fair value
	HK$'000	**HK$'000**	HK$'000	HK$'000
Commercial property units located				
- Hong Kong	**24,400**	**24,400**	21,300	21,300
- Jinan, Shandong	**543,520**	**543,520**	485,268	485,268
	567,920	**567,920**	506,568	506,568

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For the year ended 31 December 2017

15. INVESTMENT PROPERTIES (continued)

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Office premises located in Jinan, Shandong	Level 3	Income capitalisation approach Key inputs are: – Term yield – Reversionary yield – Market rent of comparable properties	Key and unobservable inputs are: – Term yield: 5.2% (2016: 4.9%) – reversionary yield 5.7% (2016: 5.4%) – Market rent of comparable properties ranged from monthly amounts of RMB63.88 to RMB83.65 (2016: RMB57.79 to RMB83.65) per square meter, by taking accounts of the accessibility, size, locations and condition and environment of properties	- The higher the term yield and reversionary yield, the lower the fair value. – The higher the market rent, the higher the fair value.
Office premises located in Hong Kong	Level 3	Comparative approach Key input is recent market prices of comparable properties	Key and unobservable input is recent market price of comparable properties, by taking accounts of the accessibility, size, locations and condition and environment of properties	- The higher the market price, the higher the fair value.

There has been no change from the valuation technique used during both years. In estimating the fair value of the investment properties for disclosure purpose, the highest and the best use of the investment properties is their current use.

There were no transfers into or out of level 3 during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Analysed for reporting purposes as:		
Current asset	880	818
Non-current asset	34,017	32,447
	34,897	33,265

At 31 December 2017, prepaid lease payments of HK$20,662,000 (2016: HK$19,460,000) is attributable to the investment property units located in the PRC.

17. OTHER INTANGIBLE ASSETS

	Registered software HK$'000	Customers base HK$'000	Total HK$'000
COST			
At 1 January 2016	30,089	57,385	87,474
Exchange adjustments	(3,618)	—	(3,618)
At 31 December 2016	26,471	57,385	83,856
Exchange adjustments	1,998	—	1,998
At 31 December 2017	28,469	57,385	85,854
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2016	30,089	57,385	87,474
Exchange adjustments	(3,618)	—	(3,618)
At 31 December 2016	26,471	57,385	83,856
Exchange adjustments	1,998	—	1,998
At 31 December 2017	28,469	57,385	85,854
CARRYING AMOUNTS			
At 31 December 2017	—	—	—
At 31 December 2016	—	—	—

The intangible assets of the Group were acquired as part of business combinations in prior years.

The above intangible assets have finite useful lives. Intangible assets are amortised on a straight-line basis over the following periods:

Registered software	5 years
Customers base	10 years

The intangible assets have been fully amortised as at the end of both reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. AVAILABLE-FOR-SALE INVESTMENT

The balance represents investment in unlisted equity securities issued by a private entity established in the PRC. At 31 December 2017 and 2016, the Group held 5.01% interests in Beijing Shenzhou Software Technology Limited which is principally engaged in software development.

The investment is measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

19. INTEREST IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Cost of investment in an associate - unlisted	**102,114**	102,114
Share of post-acquisition profits and other comprehensive income, net of dividends received	**48,002**	812
	150,116	102,926

As at 31 December 2017 and 2016, the Group had interest in the following associate:

Name of entity	Form of business structure	Country of registration and operation	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Qingdao Lejin Inspur Digital Communication Limited# ("Qingdao Lejin") 青島樂金浪潮數字通信有限公司	Sino-foreign owned enterprise ("SFOE")	The PRC	30%	30%	Manufacturing and sale of wireless Global System for Communications mobile phones and value added software for mobile phones

The English name of the associate is for identification purpose only.

During the year ended 31 December 2016, the local tax authorities have completed a tax investigation to Qingdao Lejin in relation to the transfer pricing adjustment from 2008 to 2011. The tax authorities have issued final tax notices stipulating transfer pricing adjustment for 2008 to 2009 and 2010 to 2011 amounting to RMB54.8 million (equivalent to HK$68.2 million) and RMB109.9 million (equivalent to HK$136.8 million), respectively, together with certain interest charges and Qingdao Lejin has recognised such provision of EIT. As advised by tax adviser of Qingdao Lejin, the directors of Qingdao Lejin are of the opinion that the amount of tax exposures of Qingdao Lejin for the subsequent years from 2012 to 2017 cannot be reasonably estimated at this stage as it is uncertain whether there will be any further investigation taken by the tax authorities. As a result, no additional provision on EIT has been made for the subsequent years by Qingdao Lejin during the year ended 31 December 2017.

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19. INTEREST IN AN ASSOCIATE (continued)

Summarised financial information of the associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs. The associate is accounted for using the equity method in these consolidated financial statements.

	2017 HK$'000	2016 HK$'000
Current assets	1,382,820	1,616,413
Non-current assets	171,271	169,845
Current liabilities	(1,053,704)	(1,443,171)
Revenue	6,584,387	6,440,892
Profit for the year	126,163	104,950
Other comprehensive income (expense) for the year	31,137	(24,690)
Total comprehensive income for the year	157,300	80,260
Dividend paid during the year	—	162,771

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements is set out below:

	2017 HK$'000	2016 HK$'000
Net assets of Qingdao Lejin	500,387	343,087
Proportion of the Group's ownership interest in Qingdao Lejin	30%	30%
Group's share of net assets of an associate	150,116	102,926

20. INTEREST IN A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Cost of investment in a joint venture - unlisted	185,266	185,266
Share of post-acquisition losses and other comprehensive expenses	(39,708)	(54,092)
	145,558	131,174

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For the year ended 31 December 2017

20. INTEREST IN A JOINT VENTURE (continued)

As at 31 December 2017 and 2016, the Group had interest in the following joint venture:

Name of entity	Form of business structure	Country of registration and operation	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Shandong Inspur Cloud Computing Industry Investment Co., Ltd. ("Inspur Cloud")# 山東浪潮雲海雲計算產業投資有限公司	SFOE	The PRC	33.33%	33.33%	Properties investment, provision of consultation, research and development services and trading of computer components

The English name of the joint venture is for identification purpose only.

Summarised financial information of the joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs. The joint venture is accounted for using the equity method in these consolidated financial statements.

	2017 HK$'000	2016 HK$'000
Current assets	251,901	324,503
Non-current assets	387,825	353,764
Current liabilities	(160,291)	(237,836)
Non-current liabilities	(11,301)	(8,355)
Non-controlling interest	(31,461)	(38,515)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	61,929	77,451

	2017 HK$'000	2016 HK$'000
Revenue	156,495	380,945
Profit (loss) for the year	8,316	(6,969)
Other comprehensive income (expense) for the year	34,836	(75,014)
Profit (loss) and total comprehensive income (expense) for the year	43,152	(81,983)
The above profit (loss) for the year includes the following:		
Depreciation and amortisation	4,832	20,834

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20. INTEREST IN A JOINT VENTURE (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements is set out below:

	2017 HK$'000	2016 HK$'000
Net assets attributable to owners of the Inspur Cloud	436,673	393,561
Proportion of the Group's ownership interest in Inspur Cloud	33.33%	33.33%
Carrying amount of the Group's interest in Inspur Cloud	145,558	131,174

21. INVENTORIES

	2017 HK$'000	2016 HK$'000
Computer equipment and software products	12,586	8,294

22. TRADE AND BILL RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade and bill receivables	196,799	189,204
Less: Allowance for bad and doubtful debts	(37,590)	(28,420)
	159,209	160,784

The Group allows a credit period of 30 to 210 days (2016: 30 to 210 days) to its customers. The following is an aged analysis of trade and bill receivables net of allowance for bad and doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017 HK$'000	2016 HK$'000
0 to 30 days	108,843	97,110
31 to 60 days	19,641	10,118
61 to 90 days	4,110	4,051
91 to 120 days	12,718	4,114
121 to 180 days	5,768	8,675
Over 180 days	8,129	36,716
	159,209	160,784

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For the year ended 31 December 2017

22. TRADE AND BILL RECEIVABLES (continued)

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customers. Limits and scoring attributed to customers are reviewed periodically. 78% (2016: 81%) of the trade and bill receivables that are neither past due nor impaired have the best credit scoring under the credit scoring system used by the Group.

Included in the Group's trade and bill receivables balance are debtors with aggregate carrying amount of approximately HK$6,239,000 (2016: HK$6,725,000), which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 190 days (2016: 183 days).

Ageing of trade receivables which are past due but not impaired (based on the invoice date)

	2017 HK$'000	2016 HK$'000
121 - 180 days	—	—
Over 180 days	6,239	6,725
	6,239	6,725

Movement in the allowance for bad and doubtful debts

	2017 HK$'000	2016 HK$'000
Balance at beginning of year	28,420	53,222
Allowances recognised on trade receivables	6,743	3,664
Written off as uncollectible	—	(12,328)
Reversal of allowance for bad and doubtful debts	—	(13,768)
Exchange adjustments	2,427	(2,370)
Balance at the end of year	37,590	28,420

There were no individually impaired trade receivables which had been under dispute included in the allowance for bad and doubtful debts at 31 December 2017 and 2016.

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For the year ended 31 December 2017

23. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 HK$'000	2016 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	1,098,161	877,574
Less: Progress billings	(1,254,376)	(1,020,109)
	(156,215)	(142,535)
Analysed for reporting purposes as:		
Amounts due from contract customers	86,283	46,284
Amounts due to contract customers	(242,498)	(188,819)
	(156,215)	(142,535)

As at 31 December 2017, retentions held by customers for contract work amounted to HK$4,974,000 (2016: HK$501,000) were included in prepayments, deposits and other receivables. Amounts received before the related work is performed amounted to HK$124,807,000 (2016: HK$149,635,000) were included in other payables and accrued expenses. All amounts are expected to be realised within 12 months from the end of the reporting date.

Management assessed the recoverable amounts of the contract costs and determined that costs incurred for certain long outstanding contracts were impaired. Accordingly, impairment loss of HK$1,015,000 (2016: HK$8,954,000) was recognised in the year ended 31 December 2017.

24. ENTRUSTED LOAN RECEIVABLES

The Group entered into entrusted loan framework agreement on 21 March 2016 and 11 May 2016, pursuant to which the Group agreed to provide entrusted loans to Inspur Electronic Information Industry Co., Limited ("Inspur Electronic Information"), a fellow subsidiary of the Group, through a financial institution. The principals of the entrusted loan receivables amounted to HK$175,241,000 and HK$163,558,000 were unsecured, interest bearing at 4.35% per annum and were fully repaid during the year ended 31 December 2016.

The Group also entered into a supplementary agreement on 26 September 2016, pursuant to which the Group agreed to provide entrusted loans to Inspur Electronic Information. The principals of the entrusted loan receivables amounted to HK$167,507,000 and HK$156,340,000 were unsecured, interest bearing at 4.35% per annum and were fully repaid during the year ended 31 December 2017.

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For the year ended 31 December 2017

25. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carried interest at market rates which range from 0.01 % to 1.8 % (2016: 0.01% to 1.15%) per annum.

At 31 December 2017, pledged bank deposits represented deposits pledged to banks to secure bank acceptance bills and general banking facilities granted to the Group and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.55% to 2.25 % (2016: 0.55% to 1.35%) per annum.

26. TRADE AND BILL PAYABLES

Trade and bill payables principally comprise amounts outstanding for trade purposes and ongoing costs. The average credit period taken for trade purchases is 30 to 120 days (2016: 30 to 120 days).

The following is an aged analysis of trade and bill payables for the purchase of goods and services rendered presented based on the invoice date at the end of the reporting period.

	2017 HK$'000	2016 HK$'000
Trade and bill payables		
0 - 30 days	29,102	55,032
31 - 60 days	10,398	3,624
61 - 90 days	7,307	3,633
Over 90 days	67,782	33,895
	114,589	96,184

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27. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	2017 HK$'000	2016 HK$'000
Amounts due from related companies:		
Trading in nature		
Fellow subsidiaries	110,646	54,517
Ultimate holding company	1,419	—
	112,065	54,517
Non-trading in nature		
Fellow subsidiaries	4,460	3,942
Ultimate holding company	10	295
	4,470	4,237
Total amounts due from related companies	116,535	58,754
Analysed as:		
Amounts due from fellow subsidiaries	115,106	58,459
Amount due from ultimate holding company	1,429	295
Total amounts due from related companies	116,535	58,754

The Group allows an average trade credit period of 30 to 210 days (2016: 30 to 210 days) to its trade receivables due from its fellow subsidiaries and ultimate holding company.

The following is an aged analysis of trade receivables due from related companies presented based on the invoice date at the end of the reporting period.

	2017 HK$'000	2016 HK$'000
0 - 30 days	98,832	34,369
31 - 60 days	1,401	5,127
61 - 90 days	651	164
91 - 210 days	809	2,741
Over 210 days	10,372	12,116
	112,065	54,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES (continued)

Certain trade receivables due from fellow subsidiaries and ultimate holding company are past due but not impaired at the end of the reporting period. These fellow subsidiaries and ultimate holding company have strong financial position with continuous subsequent settlements and there have been no historical default of payments by respective fellow subsidiaries or ultimate holding company. In determining the recoverability of trade receivables due from fellow subsidiaries and ultimate holding company, the Group considers any change in the credit quality of the fellow subsidiaries and ultimate holding company from the date of credit that was initially granted up to the end of the reporting period.

The amounts due from fellow subsidiaries and ultimate holding company which are non-trading in nature are unsecured, interest free and repayable on demand. In the opinion of the directors of the Company, the balances are expected to be recoverable within twelve months from the end of the reporting period.

28. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	2017 HK$'000	2016 HK$'000
Trading in nature		
Fellow subsidiaries	10,668	9,017
Ultimate holding company	1,017	—
	11,685	9,017
Non-trading in nature		
Fellow subsidiaries	16,681	18,838
Ultimate holding company	1,935	13,409
	18,616	32,247
Total amounts due to related companies	30,301	41,264
Analysed as:		
Amounts due to fellow subsidiaries	27,349	27,855
Amount due to ultimate holding company	2,952	13,409
Total amounts due to related companies	30,301	41,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES (continued)

The average credit period taken for trade purchases from related companies is 30 to 120 days (2016: 30 to 120 days). The following is an aged analysis of the amounts due to related companies which are trading in nature at the end of the reporting period.

	2017 HK$'000	2016 HK$'000
0 to 30 days	3,303	2,201
31 to 60 days	2,503	5,693
61 to 90 days	—	236
Over 90 days	5,879	887
	11,685	9,017

The amounts due to fellow subsidiaries and ultimate holding company which are non-trading in nature are unsecured, interest free and repayable on demand.

29. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2017 '000	2016 '000	2017 HK$'000	2016 HK$'000
Ordinary shares of HK$0.01 each:				
Authorised	2,000,000	2,000,000	20,000	20,000
At beginning of year	901,536	901,536	9,015	9,015
Exercise of share options	51,200	—	512	—
At end of year	952,736	901,536	9,527	9,015

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30. SHARE OPTION SCHEMES

Equity-settled share options scheme

The Share Option Scheme (the "Option Scheme") of the Company were adopted by the Company pursuant to the written resolutions of all shareholders passed on 10 November 2008 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. The Option Scheme shall be valid and effective for a period of ten years after the date of its adoption. Under the Option Scheme, the board of directors of the Company may grant options to eligible participants including employees, executives or officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

At 31 December 2017, the number of share options had been granted and remained outstanding under the Option Schemes are 30,000,000 shares (2016: 75,020,000 shares) representing 3% (2016: 8%) of the issued share capital of the Company.

The total number of shares in respect of which options may be granted under the Option Schemes is not permitted to exceed 10% of the shares of the Company of the adoption date of the Option Scheme unless prior approval from the Company's shareholders in general meeting has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Schemes and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares in respect of which options may be granted to any eligible participant in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, unless prior approval from the Company's shareholders in general meeting has been obtained. Options granted to substantial shareholder or an independent non-executive director of the Company in excess of 0.1% of the Company's share in issue and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders in general meeting.

There is no general requirement that an option must be held to any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. Options offered must be taken up not later than 28 days after the date of offer. A non-refundable remittance of HK$1 is payable as consideration by the grantee upon acceptance of every grant of option under the Option Scheme. The period during which an option may be exercised will be determined by the board of directors at its absolute discretion, save that such period of time shall not exceed a period of ten years commencing on the date which the option is granted. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the closing price of the share on the Stock Exchange's daily quotation sheet on the date of offer (ii) the average closing price of the shares on the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer and (iii) the nominal value of a share of the Company.

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30. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

2010 Option

On 10 December 2010, a total of 12,020,000 share options were granted to certain employees and directors of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$3.41 per share.

40% of the share options granted at 10 December 2010 are exercisable at date of grant; 40% of the share options are exercisable after 1 year from date of grant; the remaining 20% of the share option are exercisable after 2 years from the date of grant. All options will be vested on the first day of respective exercise period. The estimated fair value of the options granted on 10 December 2010 is HK$22,624,000.

2015 Option

On 16 July 2015, a total of 40,000,000 share options were granted to certain employees and directors of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$1.71 per share.

40% of the share options granted at 16 July 2015 are exercisable at the date of grant; 40% of the share option are exercisable after 1 year from the date of grant; the remaining 20% of the share option are exercisable after 2 years from the date of grant. All options will be vested on the first day of respective exercise period. The estimated fair value of the options granted on 16 July 2015 is HK$32,192,000.

2016 Option

On 13 May 2016, a total of 30,000,000 share options were granted to certain employees and directors of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$1.34 per share.

20% of the share options granted at 13 May 2016 are exercisable at the date of grant; 40% of the share options are exercisable after 1 year from the date of grant; the remaining 40% of the share options are exercisable after 2 years from the date of grant. All options will be vested on the first day of respective exercise period. The estimated fair value of the options granted on 13 May 2016 is HK$18,783,000.

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30. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

2017 May Option

On 4 May 2017, a total of 20,000,000 share options were granted to certain employees and directors of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$1.63 per share.

20% of the share options granted at 4 May 2017 are exercisable at the date of grant; 40% of the share options are exercisable after 1 year from the date of grant; the remaining 40% of the share options are exercisable after 2 years from the date of grant. All options will be vested on the first day of respective exercise period. The estimated fair value of the options granted on 4 May 2017 is HK$14,970,000.

2017 December Option

On 1 December 2017, a total of 30,000,000 share options were granted to certain employees and directors of the Group under the option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$2.06 per share.

Among the options granted above, 3,000,000 share options were granted to an executive director. One third of the options may be exercisable from 1 April 2018; another one third of the options may be exercisable from 1 April 2019; and the remaining options may be exercisable from 1 April 2020. The exercise of the options is subject to the grantee meeting the performance target determined by the board of directors of the Company. All options will be vested on the first day of respective exercise period.

The remaining 27,000,000 options were granted to certain employees. One third of the share options were exercisable at the date of grant; one third of the share options may be exercisable after 1 year from the date of grant; the remaining share options are exercisable after 2 years from the date of grant. Other than the those options exercisable at the date of grant, the exercise of the options is subject to the grantee meeting his or her performance target determined by the board of directors of the Company. All options will be vested on the first day of respective exercise period.

The estimated fair value of the options granted on 1 December 2017 is HK$27,544,000.

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	2017 December Option	2017 May Option	2016 Option	2015 Option	2010 Option
Share price	**HK$2.06**	**HK$1.63**	HK$1.34	HK$1.67	HK$3.41
Exercise price	**HK$2.06**	**HK$1.63**	HK$1.34	HK$1.71	HK$3.41
Expected volatility	**50.69%**	**53.01%**	55.97%	58.76%	55.04%
Expected life	**10 years**	**10 years**	10 years	10 years	10 years
Risk - free rate	**1.75%**	**1.44%**	1.20%	1.83%	2.77%
Expected dividend yield	**1.62%**	**1.88%**	1.95%	1.80%	1.93%

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30. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

Expected volatility was determined by using the historical volatility of the Company's share price over the expected term of the options. The expected term used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

On 3 August 2017, Inspur Cloud Computing Investment Limited ("Offeror"), Inspur Overseas and the Company jointly announce that the Offeror will make voluntary conditional cash offers (i) to acquire all of the outstanding shares (other than those shares owned and agreed to be acquired by the Offeror and Inspur Overseas); and (ii) to cancel all the outstanding options. The Offeror is a wholly-owned subsidiary of IPG, the Company's ultimate holding company.

On 24 October 2017, the Offeror received valid acceptances in respect of a total of 41,740,000 options under the relevant cash offers. The Offeror directly paid the holders of such options in cash. At the same time, the Company cancelled such options.

Details of specific categories of options as at 31 December 2017 are as follows:

	Date of grant	Exercise period	Weighted Average Fair value HK$	Exercise price HK$
2010 Option	10 December 2010	10 December 2010 to 9 December 2020	0.38	3.41
	10 December 2010	10 December 2011 to 9 December 2020	0.38	3.41
	10 December 2010	10 December 2012 to 9 December 2020	0.38	3.41
2015 Option	16 July 2015	16 July 2015 to 15 July 2025	0.79	1.71
	16 July 2015	16 July 2016 to 15 July 2025	0.80	1.71
	16 July 2015	16 July 2017 to 15 July 2025	0.84	1.71
2016 Option	13 May 2016	13 May 2016 to 12 May 2026	0.61	1.34
	13 May 2016	13 May 2017 to 12 May 2026	0.62	1.34
	13 May 2016	13 May 2018 to 12 May 2026	0.64	1.34
2017 May Option	4 May 2017	4 May 2017 to 3 May 2027	0.73	1.63
	4 May 2017	4 May 2018 to 3 May 2027	0.74	1.63
	4 May 2017	4 May 2019 to 3 May 2027	0.76	1.63
2017 December Option	1 December 2017	1 April 2018 to 30 November 2027	0.99	2.06
	1 December 2017	1 April 2019 to 30 November 2027	1.00	2.06
	1 December 2017	1 April 2020 to 30 November 2027	1.01	2.06
	1 December 2017	1 Dec 2017 to 30 November 2027	0.90	2.06
	1 December 2017	1 Dec 2018 to 30 November 2027	0.90	2.06
	1 December 2017	1 Dec 2019 to 30 November 2027	0.93	2.06

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30. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

The following table discloses details of the Company's share options held by directors and employees and movements in such holdings during the year ended 31 December 2017 and 2016:

	Outstanding at 1.1.2016	Forfeited during the year	Granted during the year	Outstanding at 31.12.2016	Granted during the year	Exercise during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31.12.2017
2010 Option	6,420,000	(1,400,000)	–	5,020,000	–	–	(80,000)	(4,940,000)	–
2015 Option	40,000,000	–	–	40,000,000	–	(33,200,000)	–	(6,800,000)	–
2016 Option	–	–	30,000,000	30,000,000	–	(14,640,000)	–	(15,360,000)	–
2017 May Option	–	–	–	–	20,000,000	(3,360,000)	–	(16,640,000)	–
2017 December Option	–	–	–	–	30,000,000	–	–	–	30,000,000
	46,420,000	(1,400,000)	30,000,000	75,020,000	50,000,000	(51,200,000)	(80,000)	(43,740,000)	30,000,000
Weighted average exercise price	1.95	3.41	1.34	1.68	1.89	1.60	3.41	1.74	2.06

The number of share options exercisable at the end of reporting period was 9,000,000 (2016: 43,020,000).

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at 1.1.2016	Cancelled during the year	Granted during the year	Outstanding at 31.12.2016	Granted during the year	Exercise during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31.12.2017
2010 Option	1,520,000	–	–	1,520,000	–	–	(80,000)	(1,440,000)	–
2015 Option	4,000,000	–	–	4,000,000	–	(3,600,000)	–	(400,000)	–
2016 Option	–	–	1,600,000	1,600,000	–	(840,000)	–	(760,000)	–
2017 May Option	–	–	–	–	2,300,000	(240,000)	–	(2,060,000)	–
2017 December Option	–	–	–	–	3,000,000	–	–	–	3,000,000
	5,520,000	–	1,600,000	7,120,000	5,300,000	(4,680,000)	(80,000)	(4,660,000)	3,000,000

The Group recognised the total expense of HK$33,669,000 (2016: HK$21,147,000) for the year ended 31 December 2017 in relation to share options granted by the Company.

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31. DEFERRED INCOME - GOVERNMENT GRANTS

Subsidiaries of the Company receive grants from the PRC government authorities for funding certain development projects undertaken by the subsidiaries. When the project is completed, the relevant PRC government authorities will evaluate the project results. If the subsidiaries of the Company are unable to fulfil the conditions set out by the PRC government authorities, the related grants would be returned to the PRC government authorities.

The current portion of the deferred income - government grants represents grants received related to projects expected to be completed and fulfil the conditions within one year from the end of the reporting period. For those related to projects expected to be completed and fulfil all the conditions more than one year from the end of the reporting period, they are included as non-current portion.

32. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised and movements thereon during the current and prior reporting years:

	Withholding tax arising from PRC subsidiaries HK$'000	Revaluation of investment properties HK$'000	Other HK$'000	Total HK$'000
At 1 January 2016	17,658	4,524	2,095	24,277
(Credit) charge to profit or loss (note 8)	(3,739)	15,632	—	11,893
Charge to other comprehensive expense	—	7,653	—	7,653
Exchange adjustments	—	(1,318)	(135)	(1,453)
At 31 December 2016	13,919	26,491	1,960	42,370
(Credit) charge to profit or loss (note 8)	(142)	7,094		6,952
Charge to other comprehensive expense	—	390	—	390
Exchange adjustments	—	2,310	149	2,459
At 31 December 2017	13,777	36,285	2,109	52,171

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences relating to the undistributed profits of certain PRC subsidiaries amounting to approximately HK$543,092,000 (2016: HK$410,374,000) as the Company controls the dividend policy of these subsidiaries and it is probable that the profits will not be distributed in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends and new share issues.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Available-for-sale investment	21,582	20,067
Loans and receivables (including cash and cash equivalents)	1,669,246	1,460,421
Financial liabilities		
Amortised cost	232,706	215,024

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bill receivables, other receivables, entrusted loan receivables, amounts due from ultimate holding company and fellow subsidiaries, pledged bank deposits and bank balances and cash, trade and bill payables, other payables and amounts due to ultimate holding company and fellow subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group collects most of its revenue in HK$, RMB and United States Dollars ("US$") and incurs most of the expenditures as well as capital expenditures in HK$, RMB and US$. The directors consider that the Group's foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in functional currency of each individual group entity.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk *(continued)*

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Relative to RMB:				
HK$	82,530	8,194	—	—
US$	207,139	—	—	—
Other currencies	93	—	—	—
Relative to HK$:				
US$	527	54,160	—	—
Relative to US$:				
HK$	514	—	—	—
RMB	4,253	—	—	—
Other currencies	532	—	—	—
Relative to Japanese Yen:				
HK$	5,234	—	—	—
RMB	641	—	—	—
US$	74	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

For the entities of which their functional currency is HK$ while holding assets denominated in US$, the directors of the Company consider that, as HK$ is pegged to US$, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of HK$ against US$ and hence only consider the sensitivity of the change in foreign exchange rate of HK$ against currencies other than US$. The sensitivity analysis includes only outstanding monetary items which are denominated in relevant foreign currencies and adjusts its translation at the year end for a 5% change in the relevant foreign currency exchange rates. A positive number below indicates an increase in post-tax profit for the year where the relevant foreign currencies strengthens 5% against the functional currency of each group entities. For a 5% weakening of the relevant foreign currencies against the relevant currencies, there would be an equal and opposite impact on the post-tax profit for the year and the balances below would be negative. 5 % (2016: 5%) is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates.

	2017 HK$'000	2016 HK$'000
Impact on post-tax profit for the year		
HK$ impact	3,310	307
US$ impact	7,790	—
Other currency impact	23	—

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate entrusted loan receivables. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The Group's cash flow interest rate risk primarily related to its bank balances and pledged bank deposits carried at prevailing market rate. In addition, the Group has concentration of interest rate risk on its floating rate bank balances which expose the Group significantly towards the change in the People's Bank of China's interest rate.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to the variable-rate bank balances in the PRC. The analysis is prepared assuming the PRC bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2016: 50 basis points) increase or 10 basis points (2016: 50 basis points) decrease is used, which represents management's assessment of the reasonably possible change in interest rates.

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Market risk** (continued)*

Interest rate risk (continued)

If interest rates had been 10 basis points (2016: 50 basis points) higher or 10 basis points (2016: 50 basis points) lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2017 would increase by HK$1,024,000 (2016: post-tax loss would decrease by HK$3,268,000) and decrease by HK$1,024,000 (2016: post-tax loss would increase by HK$3,268,000), respectively.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2017 and 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and bill receivables, amounts due from ultimate holding company and fellow subsidiaries at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's trade and bill receivables as at 31 December 2017 are due from a large number of customers, spread across diverse industries. The management closely monitors the subsequent settlement of the customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on trade receivables from ultimate holding company and certain fellow subsidiaries. The ultimate holding company and certain fellow subsidiaries are within software development and solution industry and located in PRC.

The Group's bank balances are deposited with banks with high credit ratings and the Group has limited exposure to any single financial institution.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains adequate cash and cash equivalents by continuously monitoring forecast and actual cash flows and matching the maturity profiles of certain financial assets (including trade and bill receivables, entrusted loan receivables, amounts due from ultimate holding company and fellow subsidiaries, pledged bank deposits and bank balances and cash) and certain financial liabilities (including trade and bill payables, other payables and accrued expenses, amounts due to ultimate holding company and fellow subsidiaries).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment dates. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk *(continued)*

2017	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK$'000	3 months to 6 months HK$'000	6 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount at 31.12.2017 HK$'000
Trade and bill payables	—	46,807	9,503	44,792	13,487	114,589	114,589
Other payables	—	41,214	158	24,434	22,010	87,816	87,816
Amount due to ultimate holding company	—	2,952	—	—	—	2,952	2,952
Amounts due to fellow subsidiaries	—	27,349	—	—	—	27,349	27,349
		118,322	9,661	69,226	35,497	232,706	232,706

2016	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK$'000	3 months to 6 months HK$'000	6 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount at 31.12.2016 HK$'000
Trade and bill payables	—	61,412	34,772	—	—	96,184	96,184
Other payables	—	45,677	31,663	236	—	77,576	77,576
Amount due to ultimate holding company	—	13,409	—	—	—	13,409	13,409
Amounts due to fellow subsidiaries	—	27,855	—	—	—	27,855	27,855
		148,353	66,435	236	—	215,024	215,024

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosure are required).

The directors of the Company consider that the carrying amounts of these financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to fellow subsidiaries -non-trading in nature (note 28) HK$'000	Amount due to ultimate holding company -non-trading in nature (note 28) HK$'000	Total HK$'000
At 1 January 2017	18,838	13,409	32,247
Repayment to ultimate holding company	—	(11,988)	(11,988)
Repayment to fellow subsidiaries	(3,436)	—	(3,436)
Net effect of exchange rate changes	1,279	514	1,793
At 31 December 2017	16,681	1,935	18,616

36. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	10,528	9,689
In the second to fifth years inclusive	14,530	6,222
	25,058	15,911

Operating lease payments represent rentals payable by the Group for its office premises and staff quarters. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. OPERATING LEASE COMMITMENTS (continued)

The Group as lessor

Property rental income and related management fee earned during the year was HK$37,130,000 (2016: HK$32,487,000). All of the properties held have committed tenants for the next year.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 HK$'000	2016 HK$'000
Within one year	594	5,212

37. RETIREMENT BENEFITS SCHEMES

The Company's subsidiaries in Hong Kong operate the Mandatory Provident Fund Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The Group's employees are required to join the scheme. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregated income with a cap of HK$1,500 per employee per month.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at a fixed percentage of their covered payroll. The Group has no other obligations for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

The total contributions in respect of the current period charged to consolidated statement of profit or loss amounted to HK$97,192,000 (2016: HK$105,874,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. RELATED PARTY TRANSACTIONS/BALANCES

Apart from the entrusted loan receivables, the amounts due from and to related parties as disclosed in notes 24, 27 and 28, respectively, the Group had entered into the following related party transactions during the year:

	Ultimate holding company		Fellow subsidiaries	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Sales of goods	**—**	156	**200,356**	212,016
Services income	**864**	1,076	**171,837**	112,342
Property rental and related management service income	**5,335**	5,004	**31,221**	21,336
Interest income	**—**	—	**4,036**	10,751
Purchase of goods	**633**	—	**21,694**	26,827
Sales commission expenses	**—**	11	**3,378**	3,117
Property rental and related management service expenses	**1,290**	—	**4,724**	11,643

In addition, during the year ended 31 December 2017, certain operating lease rentals in respect of office premises and staff quarters amounted to HK$10,908,000 (2016: HK$4,674,000) were under operating leases signed by ultimate holding company on behalf of subsidiaries of the Group with third parties.

In May 2017, a wholly-owned subsidiary of the Company acquired 100% equity interests in Heilongjiang Inspur Yunhai Technology Company Limited, a wholly-owned subsidiary of Inspur Cloud, for a cash consideration of RMB7,553,000 (equivalent to approximately HK$9,092,000). In opinion of directors of the Company, the transaction was determined as an asset acquisition.

Consideration transferred

	HK$'000
Cash consideration paid	9,092
Less: cash balances acquired	(4,296)
	4,796

Compensation of key management personnel

The remuneration of directors and chief executives during the year are set out in note 10, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. CONTINGENT LIABILITIES

Other than the contingent liability of the associate disclosed in note 19 to the consolidated financial statements, the Group has no contingent liabilities noted.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the material principal subsidiaries of the Company at 31 December 2017 and 2016 were as follows:

Name of company	Form of business structure	Place of incorporation/ registration	Class of share held	Paid up issued ordinary share capital/ registered capital		Proportion of interest held by the Company				Principal activities
				2017	2016	2017		2016		
						Directly	Indirectly	Directly	Indirectly	
Inspur Shandong Electronics	Wholly foreign owned enterprises ("WFOE")	PRC	Capital contribution	US$90,675,000	US$90,675,000	–	100%	–	100%	Investment holding
Jinan Qiyi Information Technology Limited# 濟南啟益信息科技有限公司	Sino-foreign owned enterprise ("SFOE")	PRC	Capital contribution	RMB5,000,000	RMB5,000,000	–	100%	–	100%	Investment holding
Inspur Worldwide (Shandong) Service Limited	WFOE	PRC	Capital contribution	US$2,317,300	US$2,317,300	–	100%	–	100%	Provision of outsourcing software development services and trading of computer products
Inspur Genersoft	Domestic limited liability company ("DLLC")	PRC	Capital contribution	RMB100,000,000	RMB100,000,000	–	100%	–	100%	Software development
Inspur Financial System# 浪潮金融信息系統	DLLC	PRC	Capital contribution	RMB10,000,000	RMB10,000,000	–	100%	–	100%	Software development
Shandong Inspur Genersoft Information Technology Limited# 山東浪潮通軟信息科技有限公司	DLLC	PRC	Capital contribution	RMB18,000,000	RMB18,000,000	–	100%	–	100%	Software development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of company	Form of business structure	Place of incorporation/ registration	Class of share held	Paid up issued ordinary share capital/ registered capital		Proportion of interest held by the Company				Principal activities
				2017	2016	2017		2016		
						Directly	Indirectly	Directly	Indirectly	
Shangdong Inspur Financial Software Information Limited# 山東浪潮金融軟件信息有限公司	DLLC	PRC	Capital contribution	**RMB35,000,000**	RMB35,000,000	**—**	**85.7%**	—	85.7%	Software development
Inspur (HK) Cloud Service Limited# 浪潮(香港)雲服務有限公司	Incorporated	HK	Ordinary	**HK$10,140**	HK$10,140	**—**	**100%**	—	100%	Dormant
Jinan Inspur Mingda Information Technology Limited# 濟南浪潮銘達信息科技有限公司	DLLC	PRC	Capital contribution	**RMB200,000,000**	RMB200,000,000	**—**	**100%**	—	100%	Holding of investment property

The English name of these PRC incorporated entities are for identification purpose only.

The above list includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position

At 31 December

	2017 HK$'000	2016 HK$'000
Non-current assets		
Interests in subsidiaries	**754,780**	760,512
Current assets		
Amounts due from subsidiaries	**548,020**	459,189
Amount due from fellow subsidiary	**—**	1
Other current assets	**173**	161
Bank balances	**2,756**	308
	550,949	459,659
Current liabilities		
Other payables	**9,599**	8,211
Amounts due to subsidiaries	**211,902**	189,603
	221,501	197,814
Net current assets	**329,448**	261,845
Total assets less current liabilities	**1,084,228**	1,022,357
Capital and reserves		
Share capital (note 29)	**9,527**	9,015
Reserves	**1,074,701**	1,013,342
	1,084,228	1,022,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's share capital and reserves

	Share capital HK$'000	Reserves HK$'000	Total HK$'000
At 1 January 2016	9,015	1,060,315	1,069,330
Loss for the year and total comprehensive expense	—	(41,074)	(41,074)
Dividend paid (note 12)	—	(27,046)	(27,046)
Recognition of equity-settled Share-based payment (note 30)	—	21,147	21,147
At 31 December 2016	9,015	1,013,342	1,022,357
Loss for the year and total comprehensive expense	—	(26,618)	(26,618)
Issuance of shares upon exercise of share options	512	81,354	81,866
Dividend paid (note 12)	—	(27,046)	(27,046)
Recognition of equity-settled Share-based payment (note 30)	—	33,669	33,669
At 31 December 2017	9,527	1,074,701	1,084,228

FINANCIAL SUMMARY

	For the year ended 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
RESULTS					
Continuing operations					
Revenue	820,923	891,082	971,659	1,163,170	**1,317,951**
(Loss)profit before tax	(102,371)	(67,901)	(4,609)	87,737	**127,130**
Income tax expenses	1,055	(2,268)	(12,920)	(27,163)	**(17,561)**
(Loss)profit for the year from continuing operations	(101,316)	(70,169)	(17,529)	60,574	**109,569**
Discontinued operations					
Profit for the year from discontinued operations	217,596	974	22,896	—	**—**
Profit (loss) for the year	116,280	(69,195)	5,367	60,574	**109,569**
Profit (loss) for the year attributable to:					
Owners of the Company	118,017	(68,079)	6,994	59,893	**113,051**
Non-controlling interests	(1,737)	(1,116)	(1,627)	681	**(3,482)**
	116,280	(69,195)	5,367	60,574	**109,569**

	At 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	2,646,025	2,937,207	2,632,524	2,658,157	**3,056,640**
Total liabilities	(693,417)	(1,091,269)	(841,772)	(923,566)	**(975,354)**
	1,952,608	1,845,938	1,790,752	1,734,591	**2,081,286**
TOTAL EQUITY					
Equity attributable to owners of the Company	1,948,512	1,842,995	1,789,587	1,734,331	**2,077,037**
Non-controlling interests	4,096	2,943	1,165	260	**4,249**
	1,952,608	1,845,938	1,790,752	1,734,591	**2,081,286**

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