THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Inspur International Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

PROPOSED ACQUISITION OF APPROXIMATELY 76% EQUITY INTEREST IN INSPUR TIANYUAN COMMUNICATIONS SYSTEM CO., LTD.
(1) MAJOR AND CONNECTED TRANSACTION
(2) MAJOR TRANSACTION
(3) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND
(4) CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser

AMASSE CAPITAL
寶 積 資 本

A letter from the Board is set out on pages 7 to 44 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 45 to 46 of this circular. A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 47 to 75 of this circular.

A notice convening an Extraordinary General Meeting ("**EGM**") of Inspur International Limited to be held at Flats B & C, 30/F., Tower A, Billion Center, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong on Thursday, 12 July 2018 at 10:00 a.m. is set out on pages 200 to 202 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

25 June 2018

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Annual Caps"	the annual caps of the Continuing Connected Transactions to be entered into by the relevant parties pursuant to the New Framework Agreement for the three financial years ending 31 December 2020 under the following categories: Supply Transactions, Selling Agency Transactions (value of transactions), Selling Agency Transactions (related commission), Purchase Transactions, Common Services Transactions and the Lease
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Beijing Office Building"	an office building owned by the OpCo Group which is located at Building No. 20, Zpark Zone (East), 10 Xibeiwang East Road, Haidian District, Beijing, PRC
"Board"	the board of Directors
"Business Day"	a day on which banks in Hong Kong and the PRC are generally open for normal business (excluding Saturdays, Sundays, public holidays in Hong Kong and the PRC and days on which Typhoon No. 8 Signals or Black Rainstorm Signals are hoisted)
"Common Services Transactions"	the transactions in relation to the provision of services in respect of use of premises and property management, by the Inspur Group Companies to the Group under the New Framework Agreement
"Company"	Inspur International Limited (浪潮國際有限公司), a company incorporated in the Cayman Islands with limited liability, whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 596)
"Comparable Transactions"	transactions entered into with Independent Third Parties the subject matter of which is similar to the transactions contemplated under the New Framework Agreement
"Completion Date"	the date of completion of the Share Purchase Agreements
"connected person"	has the meaning ascribed thereto under the Listing Rules

"Continuing Connected Transactions"	the continuing connected transactions of the Company under the New Framework Agreement, including the Supply Transactions, the Selling Agency Transactions, the Purchase Transactions, the Common Services Transactions and the Lease
"Consideration Shares I"	139,800,400 Shares of HK$0.01 each in the capital of the Company to be issued at the Issue Price to Seller I pursuant to Share Purchase Agreement I
"Consideration Shares II"	46,384,000 Shares of HK$0.01 each in the capital of the Company to be issued at the Issue Price to Seller II pursuant to Share Purchase Agreement II
"Consideration Shares"	Consideration Shares I and Consideration Shares II
"Debt Assignment Agreements"	debt assignment agreements to be entered into on completion of the Share Purchase Agreement I pursuant to which Seller I and its affiliates assign the Shareholders' Loan to Inspur Electronics
"Director(s)"	the Director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and approve the Share Purchase Agreements (including issue of the Consideration Shares), the transactions contemplated thereunder and the Continuing Connected Transactions
"Enlarged Group"	the Group as enlarged by Inspur Tianyuan upon completion of the Share Purchase Agreements
"Framework Agreement"	the agreement dated 12 September 2016 between the Company and Inspur Group in relation to the continuing connected transactions for the three financial years ending 31 December 2019
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising all of the independent non-executive Directors, established by the Company to advise the Independent Shareholders on the Proposed Acquisition I and the Continuing Connected Transactions

"Independent Financial Adviser"	Amasse Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO
"Independent Shareholders"	Shareholders other than Inspur Overseas and its associates, who will abstain from voting at the EGM
"Independent Third Party"	a third party who is independent of the Company and its connected persons
"Inspur Group"	Inspur Group Co., Ltd.* (浪潮集團有限公司), a company established in the PRC with limited liability, a controlling shareholder of the Company
"Inspur Group Companies"	Inspur Group and its subsidiaries (other than the Group), unless otherwise specified
"Inspur Electronics"	Inspur Electronics Limited (浪潮電子有限公司), a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
"Inspur Overseas" or "Seller I"	Inspur Overseas Investment Limited (浪潮海外投資有限公司), an investment holding company incorporated in the British Virgin Islands with limited liability, which is the vendor under the Share Purchase Agreement I and a controlling shareholder of the Company
"Inspur Software Group"	Inspur Software Group Co., Ltd.* (浪潮軟件集團有限公司), a company established in the PRC with limited liability, a controlling shareholder of the Company
"Inspur Tianyuan" or "OpCo"	Inspur Tianyuan Communications System Co., Ltd.* (浪潮天元通信信息系統有限公司), formerly known as Inspur Communication Information System Limited* (浪潮通信信息系統有限公司), a company established in the PRC with limited liability
"Issue Price"	the issue price of HK$2.65 per Consideration Share
"Last Trading Day"	9 May 2018, being the last trading day in respect of the Shares preceding the Company's announcement dated 9 May 2018
"Latest Practicable Date"	20 June 2018, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein

"Lease"	the lease of the Beijing Office Building, which is indirectly owned by OpCo, by any Inspur Group Companies from the Group under the New Framework Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merit Express" or "Seller II"	Merit Express International Holdings Limited (進德國際控股有限公司), an investment holding company incorporated in the British Virgin Islands with limited liability, which is the vendor under the Share Purchase Agreement II
"New Framework Agreement'	the agreement dated 9 May 2018 between the Company and Inspur Group in relation to the Continuing Connected Transactions for the three financial years ending 31 December 2020
"NFV"	Network Function Virtualization
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"OpCo Group"	Inspur Tianyuan and its subsidiaries
"Proposed Acquisition I"	the proposed acquisition by Inspur Electronics of the entire issued share capital of Popular Vision Limited (owned by Seller I) pursuant to Share Purchase Agreement I
"Proposed Acquisition II"	the proposed acquisition by Inspur Electronics of 51% of the issued share capital of Depot Wealth Limited (owned by Seller II) pursuant to Share Purchase Agreement II
"Proposed Acquisitions"	Proposed Acquisition I and Proposed Acquisition II
"Purchase Transactions"	transactions in relation to purchase of IT products by the Group from the Inspur Group Companies under the New Framework Agreement
"RMB"	Renminbi, the lawful currency of PRC
"SDN"	Software Defined Network
"Seller I Group"	Popular Vision Limited and its subsidiaries (including the OpCo Group)
"Seller II Group"	Depot Wealth Limited, its subsidiary (Ambition Lead Limited) and the OpCo Group

"Selling Agency Transactions"	transactions in relation to sale of various IT service products by the Group to the Inspur Group Companies who are acting as selling agent of the Group; and sale of various IT products by the Group to the Inspur Group Companies under subcontracting arrangement of software development and maintenance business under the New Framework Agreement
"SFO"	the Securities and Futures Ordinance (Cap. 571 Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Loan"	outstanding loan principal owed by Inspur Tianyuan to the affiliates of Seller I of RMB467,200,000 together with interest (accruing at an annual rate of 4.35%) as at completion of the Share Purchase Agreement I
"Share Purchase Agreement I"	the conditional sale and purchase agreement entered into by Inspur Electronics, Seller I and the Company dated 9 May 2018, as amended by the Supplemental Agreement to Share Purchase Agreement I
"Share Purchase Agreement II"	the conditional sale and purchase agreement entered into by Inspur Electronics, Seller II, the Company and the Warrantor dated 9 May 2018, as amended by the Supplemental Agreement to Share Purchase Agreement II
"Share Purchase Agreements"	Share Purchase Agreement I and Share Purchase Agreement II
"Specific Mandate"	the specific mandate proposed to be granted by the Independent Shareholders to the Directors at the EGM to allot and issue the Consideration Shares at the Issue Price
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed thereto under the Listing Rules
"Supplemental Agreements"	Supplemental Agreement to Share Purchase Agreement I and Supplemental Agreement to Share Purchase Agreement II
"Supplemental Agreement to Share Purchase Agreement I"	the supplemental agreement entered into by Inspur Electronics, Seller I and the Company dated 28 May 2018

"Supplemental Agreement to Share Purchase Agreement II"	the supplemental agreement entered into by Inspur Electronics, Seller II, the Company and the Warrantor dated 28 May 2018
"Supply Transactions"	transactions in relation to supply and provision of products and services by the Group to the Inspur Group Companies under the New Framework Agreement
"US$"	United States Dollars, the lawful currency of the United States
"Warrantor"	an individual who is an Independent Third Party and the ultimate beneficial owner of Seller II
"%"	per cent

* *All the English translation of certain Chinese names or words in this circular is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

INSPUR INTERNATIONAL LIMITED
浪 潮 國 際 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

Executive Directors:
Mr. Wang Xingshan
(Chairman and Chief Executive Officer)
Mr. Lee Eric Kong
Mr. Jin Xiaozhou, Joe

Non-executive Directors:
Mr. Dong Hailong

Independent non-executive Directors:
Ms. Zhang Ruijun
Mr. Wong Lit Chor, Alexis
Mr. Ding Xiangqian

Registered office:
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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Flat B & C, 30/F.
Tower A, Billion Centre
1 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

25 June 2018

To the Shareholders

Dear Sir or Madam,

PROPOSED ACQUISITION OF APPROXIMATELY 76% EQUITY INTEREST IN INSPUR TIANYUAN COMMUNICATIONS SYSTEM CO., LTD. (1) MAJOR AND CONNECTED TRANSACTION (2) MAJOR TRANSACTION (3) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND (4) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Company's announcement dated 9 May 2018 and the Company's supplemental announcement dated 28 May 2018.

The Proposed Acquisitions

On 9 May 2018, Inspur Electronics (a wholly-owned subsidiary of the Company) entered into the Share Purchase Agreements. On 28 May 2018, Inspur Electronics entered into the Supplemental Agreements.

Share Purchase Agreement I and Supplemental Agreement to Share Purchase Agreement I were entered into by and among, Inspur Electronics, Seller I and the Company, pursuant to which Inspur Electronics conditionally agreed to purchase the entire issued share capital of Popular Vision Limited from Seller I for a total consideration of approximately RMB770,387,200 which will be satisfied by (i) the Company allotting and issuing 139,800,400 Shares to Seller I at the Issue Price of HK$2.65 per Consideration Share and (ii) the assumption of Shareholders' Loan (outstanding principal of RMB467,200,000 together with interest as at completion of the Share Purchase Agreement I) by Inspur Electronics.

Share Purchase Agreement II and Supplemental Agreement to Share Purchase Agreement II were entered into by and among, Inspur Electronics, Seller II, the Company and the Warrantor, pursuant to which Inspur Electronics conditionally agreed to purchase 51% of the issued share capital of Depot Wealth Limited from Seller II for a total consideration of approximately RMB174,930,000 which will be satisfied by (i) Inspur Electronics paying RMB75,460,161 in cash and (ii) the Company allotting and issuing 46,384,000 Shares to Seller II at the Issue Price of HK$2.65 per Consideration Share.

As at the Latest Practicable Date, Popular Vision Limited and Depot Wealth Limited together indirectly hold 100% of OpCo. Upon completion of the Share Purchase Agreements, the Company will indirectly hold approximately 76% equity interest in OpCo. OpCo will become an indirect subsidiary of the Company and its financial results will be consolidated into the accounts of the Group.

Specific Mandate

The Consideration Shares comprising a total of 186,184,400 Shares represent approximately 19.54% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.35% of the issued share capital of the Company as enlarged by the of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company since the Latest Practicable Date up to the Completion Date). The aggregate nominal value of the Consideration Shares is HK$1,861,844.

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be obtained from the Independent Shareholders at the EGM. The Consideration Shares when allotted and issued shall rank *pari passu* in all respects with all other existing issued Shares on the Completion Date and shall be credited as fully paid. Application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of the Consideration Shares at HK$2.65 per Consideration Share represents:

(i) a discount of approximately 2.93% to the closing price of HK$2.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 2.21% to the average of the closing prices of HK$2.71 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 0.75% to the average of the closing prices of HK$2.67 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 21.56% to the net asset value of the Company at HK$2.18 per Share as at 31 December 2017.

The Issue Price was arrived at after arm's length negotiation between the parties with reference to the prevailing market price and historical performance of the Shares on the Stock Exchange.

As Proposed Acquisition I and Proposed Acquisition II both relate to acquisition of equity interest in OpCo, the Proposed Acquisitions shall be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios for Proposed Acquisition I and Proposed Acquisition II, on an aggregated basis, are more than 25% but all of the applicable percentage ratios are less than 100%, the Proposed Acquisitions, on an aggregated basis, constitute a major transaction for the Company and are subject to the reporting, announcement and shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

In addition, as Seller I is a controlling shareholder of the Company and thus a connected person of the Company, Proposed Acquisition I constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Seller II is an Independent Third Party. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Seller II and its respective associates have not entered, and do not propose to enter, into any agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) with connected persons of the Company (including Seller I) and their respective associates with respect to the Proposed Acquisitions. Further, Seller I was not involved in the negotiations of the terms of the Proposed Acquisition II. The Company negotiated the terms of the Proposed Acquisition II with Seller II based on arm's length negotiations. Therefore, the Proposed Acquisition II is not a connected transaction of the Company.

Continuing Connected Transactions

The OpCo Group presently carries on certain continuing transactions with the Inspur Group Companies (including the Group). Upon completion of the Share Purchase Agreements, these ongoing transactions will become continuing connected transactions between the Group and the Inspur Group Companies (excluding the Group). The Group and the Inspur Group entered in the Framework Agreement on 12 September 2016 in respect of certain continuing connected transactions between them. As a result of the expected increase in the transaction amounts between the Group and the Inspur Group Companies following completion of the Share Purchase Agreements, the Group and the Inspur

Group entered in the New Framework Agreement on 9 May 2018. The New Framework Agreement is conditional on the approval of the Independent Shareholders at the EGM. The New Framework Agreement will replace the Framework Agreement when the New Framework Agreement has been approved by the Independent Shareholders.

Inspur Group is a company established in the PRC and, as at the Latest Practicable Date, is interested in approximately 50.58% of the issued share capital of the Company through its subsidiaries. Under the Listing Rules, Inspur Group is a connected person of the Company and the transactions contemplated under the New Framework Agreement will constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios of the Annual Caps under the New Framework Agreement are expected to exceed 5%, the Continuing Connected Transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The purpose of this circular is to provide you with further information regarding, among others, (i) further details of the Proposed Acquisitions, the Share Purchase Agreements and the transactions contemplated thereunder, (ii) further details of the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps, (iii) the recommendation from the Independent Board Committee in respect of the Share Purchase Agreement I and the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps, (iv) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding Share Purchase Agreement I and the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps, (v) the notice convening the EGM, and (vi) other information as required by the Listing Rules.

THE PROPOSED ACQUISITIONS

Share Purchase Agreement I

Date

9 May 2018 (amended by the Supplemental Agreement to Share Purchase Agreement I on 28 May 2018)

Parties

(1) Inspur Electronics (as purchaser);

(2) Seller I (as vendor); and

(3) The Company.

Seller I is a controlling shareholder of the Company and thus a connected person of the Company. Inspur Electronics is a wholly-owned subsidiary of the Company.

Subject of Proposed Acquisition I

Pursuant to Share Purchase Agreement I, Inspur Electronics, a wholly-owned subsidiary of the Company, conditionally agreed to purchase the entire issued share capital of Popular Vision Limited from Seller I.

As at the Latest Practicable Date, Popular Vision Limited indirectly owns 51% interest in the OpCo Group.

Consideration

The consideration payable by Inspur Electronics to Seller I under the Share Purchase Agreement I amounts to approximately RMB770,387,200 which consists of the following:

(1) approximately RMB299,800,000 shall be satisfied by the Company by allotting and issuing 139,800,400 Shares to Seller I at the Issue Price of HK$2.65 per Consideration Share; and

(2) the assumption of Shareholders' Loan (outstanding principal of RMB467,200,000 together with interest as at completion of the Share Purchase Agreement I which is expected to be approximately RMB3,387,200),

and the exchange rate shall be 1 HKD to 0.80924 RMB.

The consideration is subject to adjustment as described under the paragraph headed "Profit Guarantee".

The cash consideration payable by Inspur Electronics for the assumption of Shareholders' Loan will be satisfied by the internal resources of the Group.

The consideration was determined after taking into account, among others, a preliminary valuation of the operating business (i.e. excluding the liability of RMB410,000,000 owed to a related company) of the OpCo Group of approximately RMB1,110,000,000 as at 31 March 2018 prepared by an independent valuer using the price-earnings ("**PE**") approach, following arm's length negotiations of the parties. Subsequent to the Company's announcement dated 9 May 2018, the independent valuer issued its final report with a valuation of RMB1,227,000,000, details of which are set out in Appendix V to this circular. The equity value of OpCo is RMB700,000,000. 51% of RMB700,000,000 is equal to approximately RMB357,000,000. Since Ji'nan Inspur Yuantong Information Technology Co., Ltd. (濟南浪潮元通信息科技有限公司), which directly holds 51% equity interest in OpCo, owes approximately RMB57,200,000 to Inspur Overseas' affiliate, RMB357,000,000 minus RMB57,200,000 equals approximately RMB299,800,000, which is the total consideration offered by the Company in respect of the 51% interest in OpCo Group through its acquisition of the Seller I Group.

Profit Guarantee

The parties have agreed on the following net profit targets for the OpCo Group for the years ending 31 December 2018 and 2019:

Net profit reference year	Net profit target
The twelve months ending 31 December 2018	RMB72,000,000
The twelve months ending 31 December 2019	RMB86,400,000

If the OpCo Group fails to meet the net profit target for the net profit reference year, then Seller I shall pay Inspur Electronics a sum calculated based on the following formula:

$$A = \frac{B - C}{B} \times D$$

Where:

"A" means the sum payable by Seller I if the OpCo Group fails to meet the net profit target for the net profit reference year

"B" means the relevant net profit target for the net profit reference year

"C" means the net profit recorded for the same period by the OpCo Group

"D" means the total consideration for Proposed Acquisitions, that is, RMB945,317,200.

If the OpCo Group records a net loss for the relevant period, the net loss shall be deemed to be zero for the purpose of calculating "A".

The sum payable by Seller I to Inspur Electronics under the profit guarantee provision shall not in any event exceed the total consideration for Proposed Acquisitions (that is, RMB945,317,200), excluding default interest (if any).

The net profit of the OpCo Group shall be determined based on the audited financial statements of the OpCo Group prepared in accordance with the Hong Kong Financial Reporting Standards. Such "net profit" shall be determined on or before 31 March of each net profit reference year and shall be final and conclusive in absence of manifest error.

The parties agree that the "net profit" shall mean the consolidated net operating profit (after tax) (excluding any changes in fair value of investment properties) of the OpCo Group for the two years ending 31 December 2018 or 2019 (as the case may be).

The Company will comply with the disclosure requirement under rule 14A.63 of the Listing Rules, if actual performance fails to meet the target.

The net profit targets for the two years ending 31 December 2018 and 2019 were determined following arm's length negotiations between Seller I and the Company and in consultation with the OpCo Group's management with reference to the OpCo Group's net profits for the two years ended 31 December 2016 and 2017. Based on data published by the Ministry of Industry and Information Technology of the PRC, the net profit growth of companies in the PRC software industry for the year ended 31 December 2017 and the four months ended 30 April 2018 were 15.8% and 11.4%, respectively. Based on the same set of data, the total revenue of companies in the PRC software industry for the year ended 31 December 2017 grew 13.9% (2016: 13.1%), reversing the downward trend of growth rates in the previous years. The total revenue of companies in the PRC software industry for the four months ended 30 April 2018 grew 14.3% period on period, lending further support for an upward trend.

The Board believes that there is reasonable basis for the OpCo Group to meet the net profit targets for the following reasons: (1) the audited net profit of the OpCo Group for the year ended 31 December 2017 is 2.31 times of that for the year ended 31 December 2016, and the net profit targets for the year ending 31 December 2018 is 62% higher than that for the year ended 31 December 2017, while the net profit target for the year ending 31 December 2019 is 20% higher than that in 2018; (2) the main customers of the OpCo Group are three major PRC telecommunications operators with stable customer base. Following discussions with the management of the OpCo Group, the Board considered the net profits targets are justifiable and have reason to believe the net profit targets are achievable barring unforeseen circumstances.

It is expected that the audited financial statements of the OpCo Group will be available by 31 March 2019 and 31 March 2020, respectively.

Conditions precedent

Completion of the Share Purchase Agreement I is conditional upon the fulfillment (or waiver) of the following conditions:

(a) the Independent Shareholders having approved the transactions contemplated under Share Purchase Agreement I (including the issue of Consideration Shares I);

(b) the Company having obtained the approval of the listing of, and permission to deal in, the Consideration Shares I from the Stock Exchange and such approval remaining valid;

(c) each party having obtained all necessary governmental and regulatory approval, consent or filing in respect of the entry, delivery and performance of the Share Purchase Agreement I and such approval, consent and/or filing remaining valid;

(d) Inspur Electronics having completed its due diligence on all members of the Seller I Group to its satisfaction;

(e) the Debt Assignment Agreements having been executed; and

(f) Inspur Electronics having received a valuation report on the equity interest of the operating business (i.e. excluding the liability of RMB410,000,000 owed to a related company of the OpCo Group issued by an independent valuer in such form and substance to its satisfaction and the valuation as stated therein shall be not less than RMB1,110,000,000.

Conditions (a), (b) and (c) above are not waivable. Conditions (d) and (f) above may be waived by Inspur Electronics. Condition (e) may be waived jointly by Inspur Electronics and Seller I.

If the conditions precedent above are not satisfied or waived on or before 31 July 2018, the parties may extend such date by mutual agreement or terminate the Share Purchase Agreement I by written notice to the other party.

SHARE PURCHASE AGREEMENT II

Date

9 May 2018 (amended by the Supplemental Agreement to Share Purchase Agreement II on 28 May 2018)

Parties

(1) Inspur Electronics (as purchaser);

(2) Seller II (as vendor);

(3) The Company;

(4) Warrantor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Seller II and its ultimate beneficial owner are Independent Third Parties. Inspur Electronics is a wholly-owned subsidiary of the Company.

Subject of Proposed Acquisition II

Pursuant to Share Purchase Agreement II, Inspur Electronics, a wholly-owned subsidiary of the Company, conditionally agreed to) purchase 51% of the issued share capital of Depot Wealth Limited from Seller II.

As at the Latest Practicable Date, Depot Wealth Limited indirectly holds 49% interest in the OpCo Group. On completion of the Share Purchase Agreement II, Seller II will continue to indirectly hold approximately 24% interest in the OpCo Group.

Consideration

The consideration payable by Inspur Electronics to Seller II under the Share Purchase Agreement II amounts to approximately RMB174,930,000 which consists of the following:

(1) RMB75,460,161 shall be paid in cash; and

(2) approximately RMB99,469,838.62 shall be satisfied by the Company by allotting and issuing 46,384,000 Shares to Seller II at the Issue Price of HK$2.65 per Consideration Share,

and the exchange rate shall be 1 HKD to 0.80924 RMB.

The cash consideration payable by Inspur Electronics will be satisfied by the internal resources of the Group.

The consideration was determined after taking into account, among others, a preliminary valuation of the operating business (i.e. excluding liability of RMB410,000,000 owed to a related company) of the OpCo Group of approximately RMB1,110,000,000 as at 31 March 2018 prepared by an independent valuer using the price-earnings approach, following arm's length negotiations of the parties. Subsequent to the Company's announcement dated 9 May 2018, the independent valuer issued its final report with a valuation of RMB1,227,000,000, details of which are set out in Appendix V to this circular.

In respect of the Seller II Group, since there is no debt owed by the Seller II Group to Seller II, the value for the entire Seller II Group is equal to 49% of RMB700,000,000 which is approximately RMB343,000,000. Since the Company is buying only 51% in Depot Wealth Limited, the total consideration offered by the Company is equal to 51% of RMB343,000,000 which is approximately RMB174,930,000.

In assessing the consideration of the the Proposed Acquisitions, the Board noted the difference between the net liabilities position of the OpCo Group and the original acqusition cost of the OpCo Group by Seller I and Seller II. The Board noted that the OpCo Group included equity interests in OpCo and its four wholly-owned subsidiaries. Prior to April 2017, the four subsidiaries and OpCo were under the common control of Inspur Software Group. In April 2017, OpCo acquired the equity interests of the above four subsidiaries at a consideration of approximately RMB510,000,000. As the difference between the purchase price and the book value of net assets of the subsidiaries was set off against the net assets of the OpCo Group when preparing the consolidated financial statements for the years ended 31 December 2017 using the common control method, the book value of net assets on the consolidated financial statements of the OpCo Group was negative.

In addition, according to the audited consolidated financial statements of the OpCo Group, the OpCo Group recorded net profits of approximately RMB 19,297,000 and RMB44,562,000 for the two years ended 31 December 2016 and 2017, respectively, achieving a year-on-year increase of 130.9%. Such increase was mainly due to the increase in the gross margin of the software business and the decrease in administrative expenses. Based on the Company's communications with the OpCo Group's management, the OpCo Group has implemented various strategies since July 2015, including but not limited to streamlining staff, upgrading its business from a system integration manufacturer to a software company. The audited financial statements for the two years ended 31 December 2017 have shown a steady increase in revenue from software products and acquisitions of patents and copyrights, indicating a relatively smooth transition. The Board is of the view that the current net liability position of the OpCo Group was mainly due to the earlier acquisition of the four subsidiaries and the relevant accounting treatment, which may be resolved by consistent generation of earnings. Therefore, the Board is of the view that the consideration for the Proposed Acquisitions is fair and reasonable.

Conditions precedent

Completion of the Share Purchase Agreement II is conditional upon the fulfillment (or waiver) of the following conditions:

(a) the Independent Shareholders having approved the transactions contemplated under Share Purchase Agreement II (including the issue of Consideration Shares II);

(b) the Company having obtained the approval of the listing of, and permission to deal in, the Consideration Shares II from the Stock Exchange and such approval remaining valid;

(c) the Independent Shareholders having approved the transactions contemplated under Share Purchase Agreement I and completion of Share Purchase Agreement I taking place at the same time;

(d) each party having obtained all necessary governmental and regulatory approval, consent or filing in respect of the entry, delivery and performance of the Share Purchase Agreement II and such approval, consent and/or filing remaining valid;

(e) Inspur Electronics having completed its due diligence on all members of the Seller II Group to its satisfaction; and

(f) Inspur Electronics having received a valuation report on the equity interest of the business (i.e. excluding the liability of RMB410,000,000 owed to a related company) of the OpCo Group issued by an independent valuer in such form and substance to its satisfaction and the valuation as stated therein shall be not less than RMB1,110,000,000.

Conditions (a), (b), (c) and (d) above are not waivable. Conditions (e) and (f) above may be waived by Inspur Electronics.

If the conditions precedent above are not satisfied or waived on or before 31 July 2018, the parties may extend such date by mutual agreement or terminate the Share Purchase Agreement II by written notice to the other party.

COMPLETION

Completion of each of Share Purchase Agreement I and Share Purchase Agreement II shall take place on or before the third Business Day from the day on which all conditions precedent in each Share Purchase Agreement are satisfied or waived, or at such other time and date as mutually agreed between the parties in writing.

Completion of Share Purchase Agreement II is conditional upon the completion of Share Purchase Agreement I. However, the completion of Share Purchase Agreement I is not conditional upon the completion of Share Purchase Agreement II.

All relevant tax liabilities arising out of the Proposed Acquisitions shall be borne by Seller I and Seller II, respectively.

As the Latest Practicable Date, conditions precedent (c), (d) and (f) to completion of the Share Purchase Agreement I were satisfied, and conditions precedent (d), (e) and (f) to completion of the Share Purchase Agreement II were satisfied. Condition precedent (e) to completion of the Share Purchase Agreement I has not yet been satisfied, but the Directors do not envisage any obstacle to its satisfaction.

The EGM is expected to be convened on Thursday, 12 July 2018 for the purposes of satisfying condition (a) to completion of the Share Purchase Agreement I and condition precedent (a) to completion of the Share Purchase Agreement II. Completion of the Share Purchase Agreements is expected to take place on or before the third Business Day from the day on which the remaining conditions precedent in each Share Purchase Agreement are satisfied.

ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

The Consideration Shares comprising a total of 186,184,400 Shares represent approximately 19.54% of the issued share capital of the Company as at the date of this circular and approximately 16.35% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company since the date of this circular up to the Completion Date). The aggregate nominal value of the Consideration Shares is HK$1,861,844.

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be obtained from the Independent Shareholders at the EGM. The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing issued Shares on the Completion Date and shall be credited as fully paid. Application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of the Consideration Shares at HK$2.65 per Consideration Share represents:

(i) a discount of approximately 2.93% to the closing price of HK$2.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 2.21% to the average of the closing prices of HK$2.71 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 0.75% to the average of the closing prices of HK$2.67 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a premium of approximately 21.56% to the net asset value of the Company at HK$2.18 per Share as at 31 December 2017; and

(v) a discount of approximately 6.69% to the closing price of HK$2.84 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price was arrived at after arm's length negotiation between the parties with reference to the prevailing market price and historical performance of the Shares on the Stock Exchange.

The issue of the Consideration Shares will not result in a change in control of the Company.

The proposed issue of the Consideration Shares and the payment of cash consideration was arrived at after due and careful consideration by the Board. Total consideration for Proposed Acquisitions amounted to HK$1,168.2 million. While the issue of the Consideration Shares will result in a dilution in the shareholdings in percentage terms of the existing public shareholders, having taken into account various factors as set forth below, the dilution effect on the shareholding of the existing public shareholders is considered acceptable.

Having considered the cash and cash equivalents of the Group as at 31 December 2017 which was approximately HK$1,364.9 million, the Group has sufficient cash to satisfy the entire consideration for the Acquisition with cash on hand. However, assuming such consideration was paid in full by cash, there would only be approximately HK$197 million left as balance of the Company's funds. The cash is mainly comprised of RMB-denominated deposits placed in the subsidiaries in China, therefore, additional approval procedures would be required to transfer such cash from China to Hong Kong to settle the transaction payments, which may result in delay of completion of the transaction. In addition, the Group also has funding needs arising from further promotion of the transformation of enterprise SaaS service. The Directors were of the view that it would be best to satisfy the consideration in cash and by the issue of Consideration Shares having considered (i) the funding needs for the Group's further business development and expansion; (ii) the Group's dividend policy, (iii) the Group's general working capital requirements; (iv) the desire of the Group to maintain a similar level of debt post-acquisition and control effective debt costs; (v) potential disadvantages of other equity financing alternatives as discussed below; and (vi) the willingness of the Sellers to accept the Consideration Shares issued at a price representing a discount of approximately 0.75% to the average closing price of the Shares for the last ten trading days up to and including the Last Trading Day which demonstrates the Sellers' positive view in the growth prospects of the business of the OpCo Group and that of the Group.

The Company has considered alternative forms of equity financing. Currently, the issue price of HK$2.65 per Consideration Share represents a discount of approximately 0.75% to the average closing price of the last ten trading days up to and including the Last Trading Day. In contrast, fund raising by way of issuing new shares to Independent Third Parties (e.g. new share placement) or to existing shareholders (e.g. rights issue or open offer) on a pro rata basis is usually priced at a steeper discount to the prevailing market price.

The Board noted that there was a discount of approximately 2.93% as compared with the closing price as quoted on the Stock Exchange on the Last Trading Day. The Issue Price of HK$2.65 was generally equivalent to the ten-day average price of HK$2.67, representing a mere discount of approximately 0.75%. The Issue Price of HK$2.65 represented a discount of approximately 2.7% to the 30-day average price of HK$2.58. The Board is of the view that, the Issue Price of HK$2.65 being a slight discount over the ten-day average price, a discount of approximately 2.93% over the last trading price and a premium of 2.7% over the 30-day average price, is fair and reasonable.

THE BOARD'S VIEW ON THE VALUATION METHODOLOGIES AND THE KEY ASSUMPTIONS IN THE VALUATION

As the OpCo Group is engaged in software development and big data business, the Board concurs with the valuer's opinion that adoption of the PE method to evaluate the OpCo Group is an appropriate method commonly used in the industry. The Board has reviewed the final valuation report prepared by the independent valuer in light of the methodologies, basis and assumptions adopted by the independent valuer. The Board is of the view that the cost approach and the income approach are not as appropriate for the valuation of the equity interest in the OpCo Group. In comparison with the income approach, the market approach mostly uses the current factual financial performance and position of companies as basis, and relies less on financial forecasts based on subjective assumptions. In comparison with the cost approach, the market approach captures current market expectations of the corresponding industry over the future growth potentials and economic benefits of the valuation target. In light of the above, the Board is of the view that the valuation method adopted in the final valuation report as set out in Appendix V is fair and reasonable. Meanwhile, the Board noted that based on the total consideration of approximately RMB1,110,000,000 calculated by equity plus debt, the total consideration is approximately 25 times of the net profit for the year ended 31 December 2017. Together with the net profit targets of RMB72,000,000 for year ending 31 December 2018 (yielding a PE ratio of approximately 15.42 times) and RMB86,400,000 (yielding a PE ratio of approximately 12.85 times) for the year ending 31 December 2019, the terms of the Proposed Acquisitions are fair and reasonable.

Further, the guideline public companies set out in the final valuation report as set out in Appendix V were selected based on the following criteria:

a) The companies are principally engaged in enterprise software development and services related business;

b) The principal business of the companies is located in China;

c) Shares of the companies are listed in major stock exchanges and have been actively trading for a reasonable period of time; and

d) Detailed financial and operational information in respect of the companies are available at Bloomberg or other publicly available sources.

The Board notes that the business carried out by each company selected on the above criteria is similar to that of the OpCo Group, and the revenue contribution from the enterprise software development and services related business is also significant. The coverage area of each selected public company is the same as that of the OpCo Group. Therefore, the Board is of the view that the selection of the comparable companies in the final valuation report as set out in Appendix V is fair and reasonable.

SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company had an authorised share capital of HK$20,000,000 divided into 2,000,000,000 Shares, and an issued and fully-paid share capital of approximately HK$9,527,363 consisting of 952,736,331 Shares.

Assuming that there are no other changes in the issued share capital of the Company after the date of this circular and assuming completion of Share Purchase Agreement I and Share Purchase Agreement II takes place at the same time, the following table sets out the shareholding structure of the Company as at the date of this circular and immediately upon completion of the Share Purchase Agreements.

	As at the date of the circular		**Immediately upon completion of the Share Purchase Agreements**	
	Number of Shares	**Approximate percentage of total issued shares**	**Number of Shares**	**Approximate percentage of total issued shares**
Name of Shareholders				
Inspur Overseas[(1)]	481,879,286	50.58%	621,679,686	54.58%
Director	4,000	0.00%	4,000	0.00%
Public				
Merit Express	—	—	46,384,000	4.07%
Other Shareholders	470,853,045	49.42%	470,853,045	41.35%
Total	**952,736,331**	**100.00%**	**1,138,920,731**	**100.00%**

Note (1): Out of the total of 481,883,286 Shares which Inspur Overseas holds, 193,401,286 Shares are held through its wholly-owned subsidiary Inspur Cloud Computing Investment Limited.

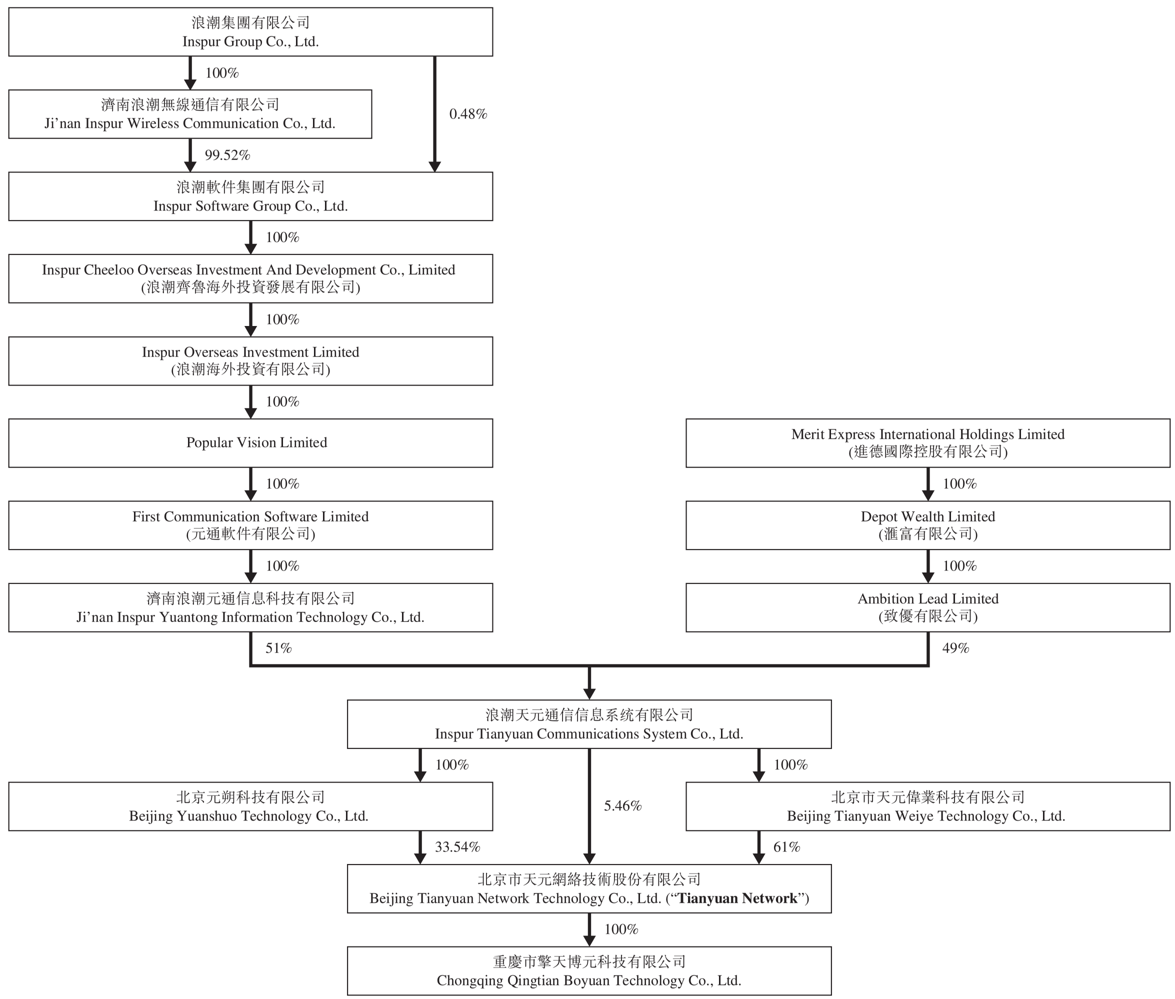
INFORMATION ON THE SELLERS

Seller I, Inspur Overseas, is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of this circular, Inspur Overseas is a wholly-owned subsidiary of Inspur Software Group, a substantial shareholder and thus a connected person of the Company. Inspur Software Group is a limited liability company established in the PRC, and, together with its subsidiaries, is principally engaged in software development and supply of integrated services, including system integration, cloud media platform, integrated IT solutions for government and large-scale corporations. Inspur Software Group is a controlling shareholder of the Company.

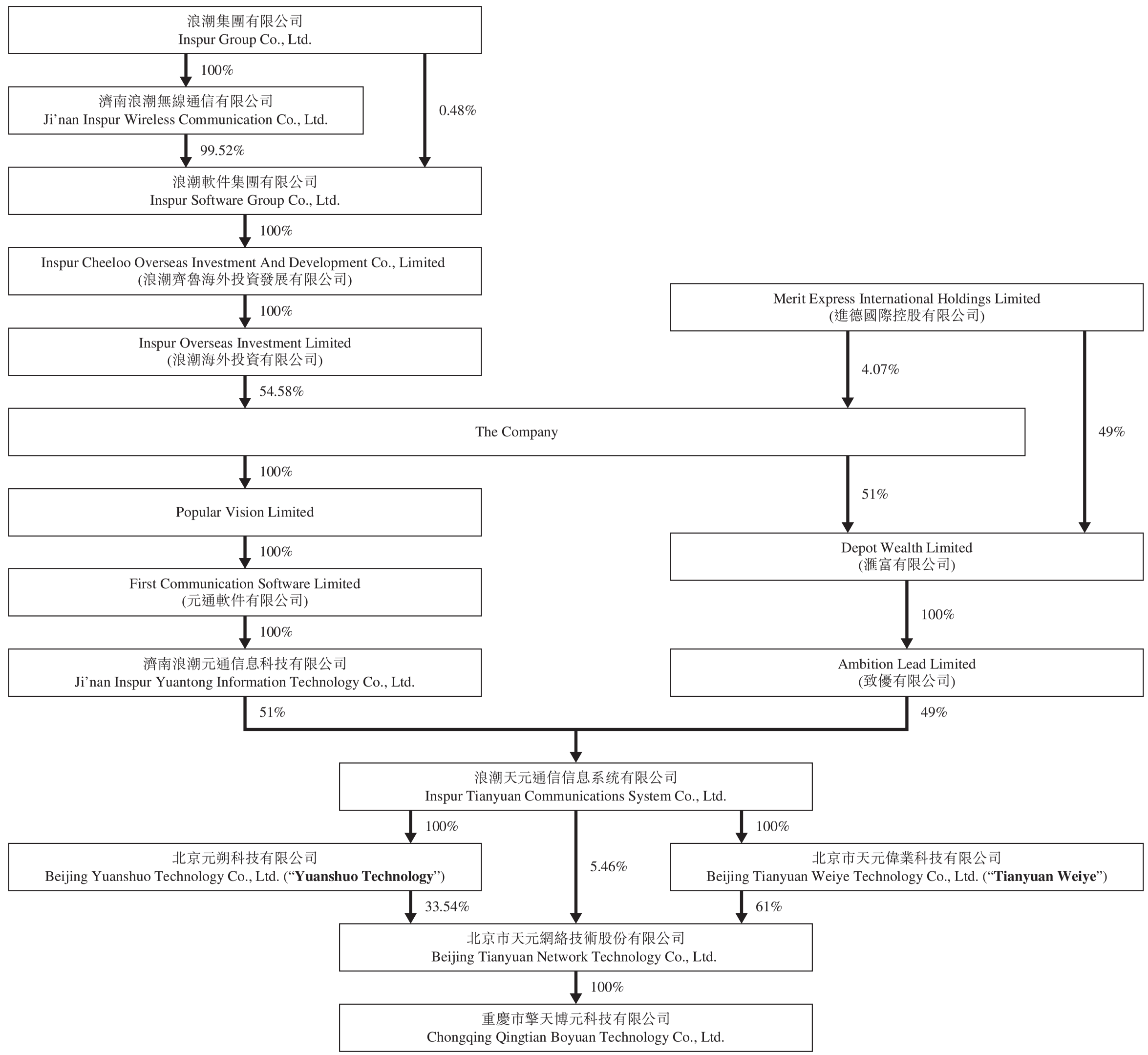
Seller II, Merit Express, is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of this circular, Seller II is ultimately owned by the Warrantor. The Company engages the Warrantor as an independent consultant for IT advisory services. The Warrantor was previously a director of the Company between July 2003 and October 2009. Other than as an independent consultant, the Warrantor does not have any other position with the Company. Upon completion of Share Purchase Agreement II, Seller II will continue to hold indirectly approximately 24% interest in the OpCo Group. There are currently no immediate plans to purchase the remaining 24% interest in the OpCo Group from Seller II, but the Company does not rule out such possibility in the future, depending on facts and circumstances at the relevant time.

INFORMATION ON THE OPCO GROUP, SELLER I GROUP AND SELLER II GROUP

The following chart sets out the corporate structure of the Seller I Group and Seller II Group as at the Latest Practicable Date.



The following chart sets out the corporate structure of the Seller I Group and Seller II Group upon completion of the Share Purchase Agreements.



The OpCo Group is principally engaged in software development and services in relation to the communications industry and transportation industry, as well as big data services business. Upon completion of the Share Purchase Agreements, Inspur Electronics will indirectly hold 75.99% of equity interest in OpCo Group.

Seller I (as a wholly-owned subsidiary of Inspur Software Group) purchased 51% interest in OpCo on 2 June 2015 at RMB22,348,200 from Inspur (Shandong) Electronics Information Limited (浪潮(山東)電子信息有限公司), a wholly-owned subsidiary of the Company.

On 25 April 2017, OpCo acquired (i) 51% equity interest in Yuanshuo Technology and Tianyuan Weiye from Inspur Software Group, a controlling shareholder of the Company, at a consideration of RMB 246,075,000 and (ii) 49% equity interest in Yuanshuo Technology and Tianyuan Weiye from an Independent Third Party, at a consideration of RMB 236,425,000, respectively. On the same day, OpCo acquired 2.79%, 2.53% and 0.14% equity interest in Tianyuan Network from Inspur Software Group and several Independent Third Parties, at the total consideration of RMB 27,846,000. Upon completion of the above acquisitions, OpCo held 100% equity interest in each of Yuanshuo Technology and Tianyuan Weiye and 5.46% equity interest in Tianyuan Network.

Business and Operating Model of the OpCo Group

The core businesses of the OpCo Group are: (1) software development and services for telecommunication operators, including provision of supporting system software development (OSS business), etc. Customers include subsidiaries of the three major PRC telecommunications operators. OpCo's products cover all applications of OSS; (2) big data services for telecommunications, energy and transportation industries. Core products and services include: big data infrastructure platforms (Hadoop), data resources management and data exchange sharing platforms, data analysis, exploration and visualization platforms, data flow platforms, "smart brain" platforms, etc., as well as provision of IT consulting and planning services, data management services, knowledge think-tank services, platform IT operation and maintenance services related to the relevant industry big data.

(1) Software development and services for telecommunication operators

The OpCo Group owns 18 registered trademarks of "Tianyuan". The OpCo Group conducts its business operations mainly through its two subsidiaries which have High and New Tech Enterprise Certificates. OpCo also owns the third level certificate of information system integration and service as well as software enterprise certificate. The OpCo Group has set up product R&D centres by product category. As of 31 March 2018, OpCo's R&D teams employed approximately 500 staff. In addition, the OpCo Group has established two levels of delivery centres. In addition to the Ji'nan headquarters, OpCo has 12 delivery centres in cities where its customers are located. As of 31 March 2018, the OpCo Group had 41 patents, and a further 210 patents had pending approval. As of 31 March 2018, the OpCo Group had 165 computer software copyrights.

China's 13th Five Year Plan has identified "developing a new generation of information technology" as a future development strategy. The "ICT Industry Development Plan (2016-2020)" released by the Ministry of Industry and Information Technology explicitly stated that during the 13th Five-Year Plan, China will develop 5G networks and promote 5G commercial services, striving to become a global leader in 5G standards and technology. It is expected that 5G will enter commercial use as early as the next two to three years. With the construction of 5G networks and the development of the Internet of Things and big data, the diversification of mobile applications and operators' business operations will increase investments from telecommunication operators at the application level and build the foundations of a future operating ecosystem for operators. These developments will promote optimizations and upgrades to supporting systems. With the support of the state policies and the rapid development in the industry, it is expected that the OpCo Group's business will grow steadily in the long run. The OpCo Group has many years of experience in software development for telecommunication supporting systems; especially after integrating Beijing Tianyuan Networks, the OpCo Group's business has achieved full coverage of the three major telecommunication operators. Its products cover applications of the whole OSS, can meet user operational requirements, and have established a long-term and stable cooperation relationship with users. Long-term and stable customer relationships help the OpCo Group to obtain continuous software development and service orders.

Since 2015, the three major operators have developed digital transformation strategies, with an aim to achieve structural, network and operation transformations. With construction of 5G networks and large-scale application of SDN and NFV, the entire network is required to build network slicing based on SDN/NFV. A successful operation and maintenance system transformation is key to showing the advantages of SDN/NFV. It is expected that the OSS business will also require reorganization in accordance with the new operating model. With the company's patents, software copyrights and continuous software upgrades and updates by the R&D teams, the OpCo Group is confident that its market share in the OSS segment will steadily increase. With rapid development of 5G, Internet of Things, big data, cloud computing, artificial intelligence, and other representative information technology, society will accelerates its steps to enter the data era. "Connections" will upgrade to "big connections" and continue to evolve. Big connections will connect people and people, people and things, and things and things with increased scale and expanded breadth and depth. This in-depth connection will further boost the investment in equipment and network optimization for telecommunication operators' networks. Based on the daily services of network optimization, the overall investment amounts to approximately RMB4,000 million nationwide, with increasingly subdivided service sectors and higher requirements in the future, resulting in broader market space. The services that can be provided include daily optimization services, IT manpower outsourcing services, data analysis services, R&D training services, operation value-added services, to C to door services, software + tools services, etc.

(2) Big data business

The OpCo Group started its big data application business for telecommunications, energy and transportation industries in 2015. As of 31 March 2018, the OpCo Group had 11 patents related to big data, and 48 patents related to big data are pending approval. As of 31 March 2018, the OpCo Group had 18 computer software copyrights related to big data.

The OpCo Group is committed to providing products, solutions and technical services in the field of big data and artificial intelligence to the three domestic major operators in the telecommunications industry as well as overseas telecommunications operators and customers in transportation and energy industries. Main core products and services include: big data infrastructure platforms (Hadoop), data resources management and data exchange sharing platforms, data analysis, exploration and visualization platforms, data flow platforms, "smart brain" platforms, etc., as well as IT consulting and planning services, data management services, knowledge think-tank services, platform IT operation and maintenance services related to the relevant industry big data.

In the transportation industry, the OpCo Group has recently focused its business on informatization planning, data centre construction, big data platform construction and innovative application construction for government and corporate customers in the transportation industry. The medium-term business plan is to expand to the logistics industry and other industries such as transportation-based ports and bonded areas combined with industries related to warehousing, customs clearance, inspection and quarantine, supply chain, etc. The long-term plan is to acquire data operation rights and become a data operator after accumulating data resources and establishing a degree of industry influence.

In the energy industry, the OpCo Group has recently focused its business on the informatization trend. Big data and artificial intelligence are still the main construction and investment focus, and the main business development is still in the construction of energy big data and smart energy. The construction of energy big data and smart energy often has a certain degree of synergy, and energy big data is the basis of smart energy. In the future, OpCo Group plans to conduct preliminary research using its technical force and promote technology based on the technical strength of the product centre. On the other hand, it will actively seek in-depth cooperation with important manufacturers in the energy industry to exert its market advantages as well as its business and technological advantages, so as to rapidly increase its market share in the relevant industries.

Development Plan of the OpCo Group

Providing corporate operation support as well as IT system buildings and services demanded for digital transformation to telecommunications operators and customers in industries such as transportation and energy, will remain the focus of the OpCo Group' principal business in the future. Looking ahead, the company will firmly implement its cross-regional, multi-operator and cross-industry strategy, actively promote the double growth drivers strategy of developing businesses in telecommunication and other related industries, and continuously explore the demand for software upgrading from current customers, so as to ensure sustainable development and breakthroughs.

The business development plan of the company for the coming three years is as follows:

(1) OSS-promoted network cloudization support business

Currently, all telecommunication operators have proposed clear 5G development plans. During the construction of 5G networks, SDN and NFV will be broadly applied. SDN/NFV network has obviously simple, agile and flexible advantages, and has higher operation and maintenance requirements. The success of the operation and maintenance system transformation is the key to show the advantages of SDN/NFV. OSS system needs to increase end-to-end services operation plans and the operation process also needs to be restructured. SDN/NFV network transformation is divided into two phases. The first phase is the cloudization phase, i.e. the central deployment of VNF (Virtualized Network Function) applications into a shared cloud resource pool. At this stage, OSS is required to provide basic cloud infrastructure management, VNF network element design layout, automatic network monitoring and scheduling capabilities to support VNF application quickly on the cloud. The second stage is the network construction and service stage. OSS needs to provide the capabilities of slicing network design deployment, business end-to-end layout, intelligent network monitoring and operation maintenance, and achieve fully-automatic, fully-programmed state. At this stage, OSS is required to build an open platform for network capabilities to enable rapid deployment of 5G network slicing, development of network capabilities and development of new applications based on network capabilities.

(2) Big data business

The in-depth implementation of such strategies as building China into a superpower in the field of quality, the "Internet +" action plan, the big data strategy and Made in China 2025 will bring unprecedented market opportunities, while there will be an ever-closer relationship between the technology development of big data and such new technologies as 5G, Internet of Things, cloud computing and artificial intelligence. The development of the Internet of Things will greatly increase the data acquisition capabilities. Cloud computing and artificial intelligence will be deeply integrated into the data analysis system, and integration innovation will continue to emerge and continue to develop in depth. In the next three years, various Internet platforms will be transformed from the original information service platform to a "data+" information service platform. From the demand-side perspective, data accumulation activities in government, finance, healthcare, industry and trade sectors has grown rapidly, and the hidden value in data has become increasingly prominent. Meanwhile, public demand for public services is also increasingly urgent. With limited public service resources, providing services with precision using big data will certainly become an innovative application trend. From the supply-side perspective, intelligence, network and platform trends in the big data industry will have increasing impact on data collection and accumulation. Cloud computing technology will continuously strengthen its capabilities on big data storage and exploration, and the technical conditions and service capabilities of big data will become increasingly mature.

In the future, product capabilities will be further improved by focusing on three aspects: "resources pool," "data pool" and "knowledge pool". The resources management level is based on OpenStack + Kubernetes + Docker to further formulate a lightweight PaaS cloud platform and enhance DevOps supporting services capabilities. The data level enhances the ability of unstructured data management and analysis to enrich data resources management and data exchange sharing capabilities. The knowledge level is based on artificial intelligence 2.0 and knowledge mapping technology to build a human-machine "smart brain" platform to form a multi-industry knowledge exchange. The business level is to in-depth explore data integration, management and governance in such industries as telecommunications, transportation, meteorology and forestry, form cross-industry knowledge maps, provide knowledge services for industrial planning, research and decision-making, information popularization and business decision-making for various industries based on government, employers, industry, colleges and research institutions, and explore industrial data operation services for the national key laboratories for big data circulation and transaction technologies.

Each of the three executive Directors of the Company has more than 30 years of experience in the IT industry. In spite of the slight differences between the business of the OpCo Group and that of the Group, both belong to the IT industry. The Directors are of the view that the management of Group is capable of operating, managing and monitoring the OpCo Group's business.

In addition, the Company may consider appointing some key management personnel of the OpCo Group to the Board in order to facilitate the OpCo Group's integration into the Group's existing business and to strengthen the Group's management of the OpCo Group.

Financial Information of the OpCo Group

The table below sets out selected financial information of the OpCo Group based on audited consolidated financial statements for the three years ended 31 December 2017.

	For the year ended 31 December 2015	**For the year ended 31 December 2016**	**For the year ended 31 December 2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	398,325	560,150	561,657
Net profit before tax	(57,498)	35,352	49,464
Net profit after tax	(61,191)	19,297	44,516

The detailed financial information and discussion of the OpCo Group are set out in the Appendix IIA of this circular.

As compared with the year ended 31 December 2016, the OpCo Group recorded a year-on-year growth in revenue from software development business, the principal business of the OpCo Group, as well as a year-on-year increase of RMB17,140,000 in gross profit for the year ended on 31 December 2017. Meanwhile, the OpCo Group has strengthened its business operation, resulting in a decrease of approximately RMB23,590,000 in administrative expenses. The above mentioned movements have led to an increase of approximately RMB25,220,000 in net profit.

As at the date of the circular, the OpCo Group owns the Beijing Office Building which is located at Building No. 20, Zpark Zone (East), 10 Xibeiwang East Road, Haidian District, Beijing, PRC, with a total gross floor area of 20,165 m^2.

The Company does not currently have any further commitment to the OpCo Group.

INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 596).

The principal activities of the Group are sales of information technology peripherals and software, software development and provision of software outsourcing services. The Group's recent business focuses include enterprise resource management services such as (1) enterprise cloud services including cloud accounting, human resource cloud, iGo cloud, and enterprise collaborative platform, and (2) software and data service business products in the areas of group control and financial sharing to help large-scale group enterprises create innovative functions in their management accounting systems.

EQUITY FUND RAISING ACTIVITIES IN LAST TWELVE MONTHS

The Company issued Shares on 31 August 2017 upon the exercise of Share Options. The exercise monies received amounted to HK$81,866,000 and were used for general working capital of the Group. Save as aforesaid, the Company has not undertaken any equity fund-raising exercise in the twelve months immediately preceding the date of this circular.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITIONS

The Group's Current Business Strategy

Over the last two years, 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 artificial intelligence 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 an enterprise SaaS service and data service provider, thus becoming the leading manufacturer of Enterprise Resource Management ("**ERM**") and cloud services vendor in China.

In 2018, the Company will continue to implement the "Data-centric" strategy and implement an aggressive market expansion strategy by focusing on the industry and core products. Meanwhile based on the ERM business, we will develop more IOT and big data analysis products and build industrial Internet platform. We help large-scale enterprises 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. 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 "leapfrog development of cloud service."

Synergies From the Proposed Acquisitions

The OpCo Group is principally engaged in the business of provision of application software and big-data services for industries such as telecommunications, energy and transportation. Its chief products comprise the industry supporting systems and comprehensively covers users' overall end-to-end processes and demand support. It assists the customers in the implementation of general customer services and management, precise operational management and control, highly efficient internal operation support, channel integration so as to enhance their market competitiveness. The industry support systems of the OpCo Group consist of asset management systems, service commencement and safeguarding systems, business process management and analysis systems, the Internet of Things platforms and industry applications, big-data platforms and big-data analysis and applications.

The main businesses of the Group are management software and software outsourcing. The customer base of our management software business is relatively broad. Currently, major clients are large-scale state-owned private enterprises engaging in equipment manufacturing, construction, public transport and intelligent food production businesses as well as SMEs engaging in various businesses. Regarding the product functions, the management software products are integrated management accounting focused corporate management software which provides integrated and real time information for cross-regions and corporate departments catering to the demands on material and resources management (logistics or physical flow), human resources management (manpower flow), financial resources management (financial resources flow), information resources management (information flow). The Group principally provides general products to customers for their use and at the same time, caters to industry clients and provides them with customized development services satisfying the client needs.

As the Group has actively transformed into the enterprise SaaS service business, the Company expects there will be overlap with the OpCo Group's research and development strategy in the future with respect to fields such as the big-data service and artificial intelligence businesses. Following the reorganization of the OpCo Group, its existing patent rights and software copyrights could be put into use in terms of technology. Meanwhile, the technological R&D personnel of the two groups could be integrated to ensure mutual sharing of technological resources. Through the integration of the management software products of the Group and the big-data technology of the OpCo Group, the product lines of the Group will be diversified and the mutual innovation in the exploration, analysis and application of the big-data network of both parties could be benefited.

Further, the customer demands would be adequately identified, and innovative businesses and new markets of enterprises could be expanded through the telecommunication ICT business. Subsequent to the reorganization of the OpCo Group, the existing customer networks of the Group will be further expanded leveraging the solid customer relationship between the OpCo Group and related industries. Currently, the management software has not been applied in the telecommunication industry. However, the two groups will put concerted efforts in promoting the Group's management software and enterprise SaaS service business for application in industries such as telecommunication, transportation and energy. In addition, the well-developed big-data service solutions of the OpCo Group will be expanded into the markets of construction industry and intelligent grain in which the Group has the leading position.

Potential Risks of the Proposed Acquisitions

Risk in relation to Intensified Competition

The OpCo Group is engaged in the business of development of application and software for telecommunication, energy and transportation industry, big data technology services, as well as the provision of operation maintenance services. With the approaching of the mobile internet and IoT era, market opportunities for industry application and software and big data technology services have increased significantly. Accordingly, it is expected that the number of competing firms in the industry will also continue to increase. In the event that the OpCo Group fails to further strengthen its capabilities in terms of technological innovation, marketing and customer services, it will be exposed to greater competition pressure in the future.

The OpCo Group intends to respond to the above risk through measures such as increasing its efforts in the construction of R&D centres, continuing to optimize its innovation mechanism for products, technology and services, strengthening its brand promotion and establishment of marketing channels as well as enhancing its market competitiveness.

Risk in relation to Technological Upgrades

The OpCo Group is principally engaged in the business of development of industry application and software and big data technology services, mainly targeting clients from major industries such as telecommunication, energy and transportation. These industries are knowledge-intensive industries where knowledge is updated rapidly and new technologies and applications are launched frequently. Companies operating in these industries must update their knowledge and technological reserve on a continuous basis and devote consistent efforts in product and service innovation in order to satisfy the changing market demands. In case the OpCo Group fails to secure continuous and stable capital and R&D investment, it will experience interruption in its reserve of technology and talent and will thus be exposed to risk that its technology being eliminated by the industry.

As for the above risk, the OpCo Group has established four product centres and attracted talent from various fields by leveraging the excellent reputation of the Inspur Group in the IT sector. Meanwhile, the OpCo Group will closely monitor the development of new technology and the industry with a view to enhancing the OpCo Group's software development ability and core competitiveness as a whole.

The Directors' View

The Directors (including the independent non-executive Directors) are of the view that the Proposed Acquisitions and the transactions contemplated under the Share Purchase Agreements are on normal commercial terms, the terms of the Share Purchase Agreements fair and reasonable and in the interests of the Company and the Shareholders as whole.

The Company does not currently have any intention or plan to dispose of any of its existing business in the next twelve months. Regarding future potential acquisitions, the Company will stay tuned for any acquisition opportunities available in the market. The Directors will consider any appropriate proposals relevant to the Company's principal business and industry. Other than the Share Purchase Agreements, the Company has not entered into any agreements or is conducting any negotiations regarding any proposed acquisitions.

LISTING RULES IMPLICATIONS OF PROPOSED ACQUISITIONS

As Proposed Acquisition I and Proposed Acquisition II both relate to acquisition of equity interest in OpCo, the Proposed Acquisitions shall be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios for Proposed Acquisition I and Proposed

Acquisition II, on an aggregated basis, are more than 25% but all of the applicable percentage ratios are less than 100%, the Proposed Acquisitions, on an aggregated basis, constitute a major transaction for the Company and are subject to the reporting, announcement and shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

In addition, as Seller I is a controlling shareholder of the Company and thus a connected person of the Company, Proposed Acquisition I constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Seller II is an Independent Third Party. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Seller II has not entered, and does not propose to enter, into any agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) with a connected person of the Company (including Seller I) with respect to the Proposed Acquisitions. Further, Seller I was not involved in the negotiations of the terms of the Proposed Acquisition II. The Company negotiated the terms of the Proposed Acquisition II with Seller II based on arm's length negotiations. Therefore, the Proposed Acquisition II is not a connected transaction of the Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the transactions contemplated under the Share Purchase Agreements.

As completion of the Share Purchase Agreements is subject to fulfillment (or waiver) of certain conditions precedent and may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITIONS

Upon completion of the Proposed Acquisitions, Opco will become an indirect subsidiary of the Company and its earnings, assets and liabilities will be consolidated into the accounts of the Group.

Assets and Liabilities

As of 31 December 2017, the Group's audited consolidated total assets and total liabilities amounted to approximately HK$3,056,640,000 and approximately HK$975,354,000 respectively. As set out in Appendix IV to this circular, assuming the Proposed Acquisitions had taken place on 31 December 2017, the unaudited pro forma combined total assets of the Enlarged Group would increase to approximately HK$3,252,873,000 and the unaudited pro forma combined total liabilities of the Enlarged Group would increase to approximately HK$1,469,632,000.

Further details of the financial effects of the Proposed Acquisitions on the Group's assets and liabilities and the basis of preparation of the unaudited pro forma financial information are set out in Appendix IV to this circular.

Earnings

Upon completion, the financial results of the OpCo Group will be consolidated into the Enlarged Group's consolidated accounts. Based on the audited financial statements for the year ended 31 December 2017 of the Seller I Group and Seller II Group as set out in Appendix IIA and Appendix IIA, and assuming that the Proposed Acquisitions had taken place on 1 January 2017, the net profit of the Group for the financial year ended 31 December 2017 is expected to increase from approximately HK$113,051,000 to approximately HK$155,891,000 as a result of the Proposed Acquisitions.

BACKGROUND OF THE CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Company's announcements dated 12 September 2016 and 17 November 2016 and circular dated 27 October 2016.

The OpCo Group presently carries on certain continuing transactions with the Inspur Group Companies (including the Group). Upon completion of the Share Purchase Agreements, these ongoing transactions will become continuing connected transactions between the Group and the Inspur Group Companies (excluding the Group). The Group and the Inspur Group entered in the Framework Agreement on 12 September 2016 in respect of certain continuing connected transactions between them. As a result of the expected increase in the transaction amounts between the Group and the Inspur Group Companies following completion of the Share Purchase Agreements, the Group and the Inspur Group entered in the New Framework Agreement on 9 May 2018. The New Framework Agreement is conditional on the approval of the Independent Shareholders at the EGM. The New Framework Agreement will replace the Framework Agreement when the New Framework Agreement has been approved by the Independent Shareholders.

NEW FRAMEWORK AGREEMENT

Date

9 May 2018

Parties

(1) The Company (for itself and on behalf of the Group)

(2) Inspur Group (for itself and on behalf of the Inspur Group Companies)

The Continuing Connected Transactions under the New Framework Agreement comprise: Supply Transactions, Selling Agency Transactions, Purchase Transactions, Common Services Transactions and Lease.

1. Supply Transactions

Types of services

The Group (including the OpCo Group, upon completion of the Share Purchase Agreements) supply and provide the Inspur Group Companies from time to time with software and cloud services including software outsourcing, ERM software and those software developed by the Group.

Pricing and other terms

The Group supplies software and cloud services to the Inspur Group Companies. The actual terms and conditions of such services to be provided by the Group are subject to individual orders placed by the Inspur Group Companies. The parties have agreed that:

(a) the supply of such software and cloud services by the Group to the Inspur Group Companies shall be on normal commercial terms;

(b) the service fees of such services to be supplied or provided by the Group will be agreed between the parties by reference to the prices of such services supplied by the Group to independent third parties at the relevant time; and

(c) the Group shall not be obliged to accept any terms and conditions (including pricing terms) for the supply of such services which are less favourable than those agreed between any member of the Group and its independent third party customers for such services.

As the Group has other customers for comparison purposes, the Company will select at least two Comparable Transactions when determining the prices to ensure that the prices of the products and the service fees of the services to be supplied under the Supply Transactions are not less favorable than those of the same (or similar) products or service supplied to Independent Third Parties at the relevant times.

Payment terms

The Group gives two-month credit period for the Inspur Group Companies to settle the service fees charged for the software and cloud services rendered.

2. Selling Agency Transactions

The Group appoints the Inspur Group Companies as its selling agent in respect of various IT service products of the Group (such as ERP software, finance software and other software products) as the Inspur Group owns the First-Class Certificate of the Computer Information System Integration Qualification (the "**Qualification**") granted by the Ministry of Industry and Information Technology of the PRC (the "**Ministry**"). The Ministry only grants around 200 enterprises the same Qualification as Inspur Group Companies throughout the PRC. This Qualification is certified by a third-party institution, i.e the China Information Technology Industry Federation, which confirmed that all aspects of the company's capacity have achieved the required levels, especially the Company's capacity on the computer science engineering and network system engineering.

Since the Group only owns the fourth-class certificate of the qualification granted by the Ministry and certain business of the Group is generated from public tenders that require the Qualification held by the Inspur Group Companies, the Group co-operates with Inspur Group Companies to participate in the public tenders requiring first-class qualification. The Group will participate in the negotiation and finalization of the terms of supply of IT products to the ultimate third party customers and ensure that the supply of IT products is on normal commercial terms. The members of the Inspur Group Companies will place orders with the relevant members of the Group for supply of the products from time to time. After acceptance of the orders by the Group, the Group will directly provide the products to the customers. After the delivery of the products to the customers, the relevant members of the Inspur Group Companies will issue sale invoices to the customers and the relevant members of Group will issue sales invoice to the Inspur Group Companies for settlement of the products.

The Group pays selling agency commission of not more than 1% (calculated on the price of the relevant products payable by the customers) to the Inspur Group Companies for it to maintain its Qualification. The Inspur Group Companies will deduct the related commission from the price received from the customers and pay back the net proceeds to the Group within five days. In other words, the commission is the only fee received by the Inspur Group Companies from the Group. The balance of the fees is paid to the Inspur Group Companies only on a pass-through basis. The Inspur Group Companies are not end-customers in those transactions.

The Inspur Group Companies are the only selling agents appointed by the Group and the Group has not entered into any Comparable Transactions with independent third parties. The Group may lose some business generated from the public tenders that require the Inspur Group's Qualification if it terminates the appointment of Inspur Group Companies as its selling agent.

Meanwhile, the Company further understands that the Inspur Group Companies did not act as selling agent of entities other than members of the Inspur Group Companies and the Group in 2018. As such, the 1% commission is determined with reference to the Qualification Management Policy (資質管理有關規定) of the Inspur Group Companies pursuant to which the Inspur Group Companies will charge a selling agency commission of not more than 1% of the contract amount as general policy. The Qualification Management Policy is an internal control policy used by the Inspur Group Companies for governing the transactions relevant to the Selling Agency Transactions. However, it is highly unlikely for the Group to find an independent third party who owns the first-class qualification as Inspur Group Companies are charging the commission fee less than 1%. Moreover, other entities with the first-class qualification are limited in number and as business competitors of the Group, they would not offer selling agency services to the Group. As such, the Board is of the view that the 1% commission fee is lower than the average market rate and is fair and reasonable.

The total amount of such transactions recorded for the two years ended 31 December 2017 and 31 December 2016 only represents, respectively, approximately 28.31% and 27.99% of the Group's revenue for the same period. For the three years ending 31 December 2018, 2019 and 2020, as the Group will not have material changes or adopt other strategies in relation to such transactions, it is expected that this percentage will stay around 30% based on historical figures.

Moreover, with its own fourth-class certificate of the qualification, the Group is able to participate in public tenders and find third party customers, of which the scale of the transaction may be smaller than those requiring the first-class qualification. Therefore, the Board takes the view that the new annual caps for Selling Agency Transactions are appropriate and will not cause over-reliance on Inspur Group Companies.

3. Purchase Transactions

Types of products

The Group purchases from the Inspur Group Companies various IT products from time to time including without limitation the IT server under the name of "Inspur", storage products and other accessories.

Pricing and other terms

The Group purchases various products and components from the Inspur Group Companies. The actual quantity, specification, delivery date and price of such products to be provided by the Inspur Group are subject to individual orders placed by the Group. The parties have agreed that:

(a) the supply of products and components by the Inspur Group Companies to the Group shall be on normal commercial terms;

(b) the price per unit of the products and components to be supplied by the Inspur Group Companies will be agreed between the parties with reference to, among other factors, the prices of such products supplied by the Inspur Group Companies to independent third parties at the relevant time; and

(c) the Group shall not be obliged to accept any terms and conditions (including pricing terms) for the purchase of the products and components which are less favourable than those agreed between any member of the Inspur Group Companies and its independent third party purchasers for those products and components.

For determination of the price of the products and components supplied by Inspur Group Companies and the payment terms, the procurement department of the Company refers to at least two Comparable Transactions. The procurement department of the Company will ensure the prices of the products and components purchased from the Inspur Group Companies are not less favourable than the quotations or prices of the products and components with independent third parties. As the Group has other suppliers for similar IT products and IT services, the procurement department of the Company will refer to the commercial terms offered by other suppliers when determining the same with the Inspur Group Companies.

Payment terms

The Inspur Group Companies give two-month credit period for the Group to settle the price of the products and components after delivery. The Group makes the payment out of the Group's internal resources.

4. Common Services Transactions

The Inspur Group Companies provide services in respect of use of premises and property management ("common services") to the Group at fees determined with reference to the prevailing market rates and following arm's length negotiations. In general, the above fees are billed on a monthly basis.

For determination of the fees for using of premises and estate management, the administration department of the Company refers to at least two Comparable Transactions and those fees charged by Independent Third Parties for providing comparable premise renting and management services on market at the relevant time. The administration department of the Company will ensure that the fees to be charged by Inspur Group Companies under the Common Services Transaction are not less favourable than the fees charged by those Independent Third Parties.

5. Lease

Upon completion of the Share Purchase Agreements, the Group will indirectly own the Beijing Office Building through the OpCo. The research office property currently has excess space which will not be occupied by the Group. The Company can lease out the excess space in the research office property and receive rent from Inspur Group Companies.

For determination of the rent, the administration department of the Company will refer to at least the prevailing rent of two comparable premises in the vicinity of the Beijing Office Building as a base factor, taking into account of the gross area which a potential lessee intends to lease, the creditworthiness of a potential lessee and the principal activities to be carried out by the lessee. The Company intends to attract research and development focused tenants for the Beijing Office Building in order to strengthen its profile and avoid fragmented lease terms. The monthly rent (including management fees) which the Inspur Group Companies agreed to pay the OpCo Group pursuant to the existing leases in respect of the Beijing Office Building was RMB5.00 per sq.m. As at the Latest Practicable Date, the total area of the Beijing Office Building being leased to the Inspur Group Companies was 7,263 sq.m.

Internal Control Measures for the Transactions

The market strategies, including the pricing mechanisms, are determined by the Company's operations department. There is a segregation of duties between the Company's sales department and operations department. The sales department is responsible for contacting customers, setting quotation and entering into the contracts. The operations department is in charge of setting the price and other terms, through which it will control and monitor the fee quotation. The operations department will periodically review and conduct internal audit and, if necessary, adjust the pricing and commercial terms with reference to the market situation and the same or similar transactions entered into by the Inspur Group Companies with independent third parties.

The Directors (including independent non-executive directors of the Company) will review the pricing terms and the payment terms of the Continuing Connected Transactions each year so as to confirm that the relevant pricing terms and payment terms are fair and reasonable and on normal commercial terms or better than those offered to or by the Independent Third Parties.

HISTORICAL FIGURES

Set out below are the historical amounts of the Continuing Connected Transactions between the Group and Inspur Group Companies for the two years ended 31 December 2017:

(All amounts in RMB'000)	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017
Supply Transactions	9,463	8,435	12,669
Selling Agency Transactions			
- (value of transactions)	323,192	270,258	310,868
- (related commission)	3,174	2,678	2,929
Purchase Transactions	50,131	22,963	19,363
Common Services Transactions	9,542	9,966	5,215
Lease	N/A	N/A	N/A

Set out below are the historical amounts of same types of transactions as the Continuing Connected Transactions between the OpCo Group and Inspur Group Companies for the two years ended 31 December 2017:

(All amounts in RMB'000)	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017
Supply Transactions	504	1,400	630
Selling Agency Transactions			
- (value of transactions)	47,927	62,485	90,511
- (related commission)	479	625	905
Purchase Transactions	51,786	14,977	22,255
Common Services Transactions	4,712	3,300	3,513
Lease	N/A	5,786	8,814

ANNUAL CAPS

The Annual Caps under the New Framework Agreement are:

(All amounts in RMB'000)	Year ending 31 December 2018	Year ending 31 December 2019	Year ending 31 December 2020
Supply Transactions	40,000	48,000	57,600
Selling Agency Transactions			
- (value of transactions)	600,000	720,000	864,000
- (related commission)	6,000	7,200	8,640
Purchase Transactions	72,000	86,400	103,680
Common Services Transactions	13,310	14,640	16,100
Lease	13,960	16,700	17,540

Note: the above annual cap amounts do not include any tax or duty (such as VAT).

BASIS OF THE ANNUAL CAPS

1. Supply Transactions

The following factors have also been taken into account by the Company in determining the Annual Caps for the Supply Transactions: (a) the historical amounts for the two years ended 31 December 2017 and the expected amounts of the Supply Transactions for the year ending 31 December 2018; and (b) the expected annual growth rates of the Company's revenue and the amounts of the Supply Transaction.

2. Selling Agency Transactions

The following factors have been taken into account by the Company in determining the Annual Caps for the Selling Agency Transactions: (a) the historical amounts for the two years ended 31 December 2017 and the expected amounts of the Selling Agency Transactions for the year ending 31 December 2018; and (b) the expected annual growth rates of the Company's revenue and the amounts of the Selling Agency Transactions.

3. Purchase Transactions

The following factors have been taken into account by the Company in determining the Annual Caps for the Purchase Transactions: (a) the historical amounts for the two years ended 31 December 2017 and the expected amounts of the Purchase Transactions for the year ending 31 December 2018; and (b) the expected annual growth rates of the Company's revenue and the amounts of the Purchase Transactions.

4. Commons Services Transactions

The following factors have been taken into account by the Company in determining the Annual Caps for the Common Services Transactions: (a) the historical amounts for the two years ended 31 December 2017 and the expected amounts of the Common Services Transactions for the year ending 31 December 2018; and (b) the expected annual growth rates of the expected usage of the common services.

5. Lease

The following factors have been taken into account by the Company in determining the Annual Caps for the Lease: (a) the historical amounts between the Inspur Group Companies and the OpCo Group for the two years ended 31 December 2017 and the expected amounts of the Lease for the year ending 31 December 2018 and (b) the rent determined at arm's length negotiation and calculated on the basis of the prevailing market rent for comparable commercial properties near the Beijing Office Building. The rent and the terms under the Lease would not be more favourable than those offered to Independent Third Party tenants (if any).

The Board has estimated the transaction amount for the year ending 31 December 2018 based on the unfinished contracts for each Continuing Connected Transaction and the growth rate based on the actual achieved revenue of the Group and the OpCo Group. The New Caps for the Supply

Transactions, the Selling Agency Transactions and the Purchase Transactions are based on such estimated amount for 2018 and the annual growth rate of 20%. The New Caps for the Common Services Transactions are based on such estimated amount for 2018 and the annual growth rate of 10% that has taken into account the relatively stable demand of common services (primarily being property leasing and management services) and general inflation. The New Caps for the Lease are based on the expected area (approximately 7,641 sq.m) available to be leased out to Inspur Group, Inspur Software Group and their respective subsidiaries, the expected rental income (expected annual rental of approximately RMB13,960,000=7,641*RMB5 per day per sq.m*365) from the Lease for the year ending 31 December 2018 and the prevailing market rents for comparable commercial properties near the Beijing Office Building, assuming stable demand and general inflation in 2019 and 2020, and hence a compound growth rate of 10% for the annual caps for 2019 and 2020.

The rate of increase of the annual caps of the Continuing Connected Transactions for the three years ending 31 December 2020 was estimated to be approximately 20% each year, which is the estimated annual growth rate of the Company's revenue from its software management services. The Directors is of the view that the estimated annual growth rate is reasonable as the Company's revenue from its software services grew 25.6% from the year ended 31 December 2015 to the year ended 31 December 2016, and 19.25% from the year ended 31 December 2016 to the year ended 31 December 2017.

The Company's finance department provides guidance and advice to the Company's operation department on the amount incurred under the Continuing Connected Transactions each year. By monitoring the Continuing Connected Transactions, the finance department will analyse the implementation of the Continuing Connected Transactions monthly and ensure the compliance of the New Caps.

INFORMATION ON THE GROUP AND THE INSPUR GROUP COMPANIES

The principal activities of the Group are software development and providing outsourcing software services.

Inspur Group is an investment holding company established in the PRC. The Inspur Group Companies are committed to be the leading suppliers of cloud computer solutions in China and provides IT services and products to customers from more than 50 countries, meeting the information-based demands of governments and corporations all-around.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FRAMEWORK AGREEMENT

The Group has established a long-term strategic business relationship with the Inspur Group Companies and has been conducting the Continuing Connected Transactions with the Inspur Group Companies for several years. By entering into the New Framework Agreement, the Group can continue to derive benefits from the Continuing Connected Transactions which can capture the synergic advantages of both the Group and the Inspur Group (including the established worldwide client network of the Inspur Group).

For Supply Transactions, provision of the IT products and IT services to the Inspur Group Companies can generate more revenue and profits to the Group. Our Group is well known for the types of IT products and IT services that are appropriate to the Inspur Group Companies. By using our Group's products and services, the Inspur Group Companies can enjoy a better company management and operate more efficiently.

The Selling Agency Transactions are beneficial to the Group, as Inspur Group Companies own the Qualification required by certain transactions, the Group could further develop software business requiring such Qualification by cooperating with the Inspur Group Companies.

Inspur server sales volume and amount ranked third in the world in 2017, and Inspur Group's comprehensive strength is among the top of the IT companies in the PRC. With good reputation in the IT area, the IT products supplied by Inspur Group represent a guarantee of high quality and reliable after-sales service. Cooperation in the Purchase Transactions can bring more sales channels and customers to Inspur Group and bring more revenue and profits to the Group as well.

Common Services Transactions is mainly for the need in office premises and the relevant estate management of the Group and the OpCo Group. As Inspur Group owns vacant premises with good estate management and office environment and the Group has such need, it is a win-win situation for both sides to conduct this transaction.

For Lease, apart from own use by the Group and the OpCo Group, the remaining office space of the Beijing Office Building has leased to Inspur Group, Inspur Software Group and their respective subsidiaries with reference to the market price of the surrounding properties in order to increase the property utilization rate, which could increase the Group's rental income. Meanwhile, due to the brand awareness of Inspur Group and Inspur Software Group, their entry will also help attract other tenants.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the New Framework Agreement are on normal commercial terms and entered into in the ordinary and usual course of business of the Group. In view of the above, the Directors are of the view that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS OF THE CONTINUING CONNECTED TRANSACTIONS

Inspur Group is a company established in the PRC and, as at the Latest Practicable Date, is interested in approximately 50.58% of the issued share capital of the Company through its subsidiaries. Under the Listing Rules, Inspur Group is a connected person of the Company and the transactions contemplated under the New Framework Agreement will constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios of the Annual Caps under the New Framework Agreement are expected to exceed 5%, the Continuing Connected Transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the transactions contemplated under the New Framework Agreement.

EGM

Set out on pages 200 to 202 of this circular is a notice convening the EGM which will be held at Flats B & C, 30/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong at 10:00 a.m. on Thursday, 12 July 2018 for the purpose of considering and if thought fit approving the Share Transfer Agreements and the transactions contemplated thereunder.

The EGM will be convened and held for the Independent Shareholders to consider and approve (i) the Share Purchase Agreements and the transactions contemplated thereunder, including the issue of the Consideration Shares, and (ii) the New Framework Agreement, including the Annual Caps in relation to the Continuing Connected Transactions for the three financial years ending 31 December 2020.

Since (i) Proposed Acquisition I and the transactions contemplated under Share Purchase Agreement I and (ii) the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps are subject to the Independent Shareholders' approval as required under Chapter 14A of the Listing Rules, Seller I and its associates shall abstain from voting on the relevant resolutions.

In addition, since Seller I as the controlling shareholder of the Company may be viewed as having a material interest in Proposed Acquisition II, Seller I has stated that Seller I and its respective associates will abstain from voting on resolutions regarding the Proposed Acquisitions at the EGM.

For the purpose of determining the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 9 July 2018 to Thursday, 12 July 2018, both days inclusive. In order to qualify for attending and voting at the EGM, all transfer documents together with the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Friday, 6 July 2018.

A form of proxy for the EGM is enclosed. Whether or not you wish to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules and article 66 of the Company's articles of association, a resolution put to the vote of a general meeting of the Company shall be decided by way of a poll. After the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

RECOMMENDATIONS

Amasse Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to advise them on the terms of (i) the Share Purchase Agreement I and (ii) the New Framework Agreement. The Independent Board Committee, comprising all the independent non-executive Directors, has been established by the Company to advise the Independent Shareholders as to whether (i) the terms of Share Purchase Agreement I and (ii) the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable and whether the transactions are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

The text of the letters from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 47 to 75 of this circular and the text of the letters from the Independent Board Committee to the Independent Shareholders is set out on pages 45 to 46 of this circular.

The Independent Board Committee, having taken into account the advice of Amasse Capital Limited, is of the opinion that the Share Purchase Agreement I and the New Framework Agreement were entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Share Purchase Agreement I, the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps were agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and they are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at EGM.

The Directors (including the independent non-executive Directors whose view is expressed in the letter from the Independent Board Committee set out on pages 45 to 46 of this circular) are of the view that the Proposed Acquisitions and the transactions contemplated under the Share Purchase Agreements are on normal commercial terms and the terms of the Share Purchase Agreements fair and reasonable. The Directors consider that the entering into the Share Purchase Agreements, while not in the ordinary and usual course business of the Company, is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors whose view is expressed in the letter from the Independent Board Committee set out on pages 45 to 46 of this circular) consider that the transactions contemplated under the New Framework Agreement are on normal commercial terms and entered into in the ordinary and usual course of business of the Group. In view of the above, the Directors are of the view that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

The Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board of
Inspur International Limited
Mr. Wang Xingshan
Chairman

INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 596)

25 June 2018

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED ACQUISITION OF APPROXIMATELY 76% EQUITY INTEREST IN INSPUR TIANYUAN COMMUNICATIONS SYSTEM CO., LTD. (1) MAJOR AND CONNECTED TRANSACTION (2) MAJOR TRANSACTION (3) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND (4) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 25 June 2018 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider whether (i) the terms of Share Purchase Agreement I and (ii) the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable and whether the transactions are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. Amasse Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 44 of the Circular, and the letter from Amasse Capital Limited to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Share Purchase Agreement I and the New Framework Agreement, as set out on pages 47 to 75 of the Circular.

Having taken into account of the advice of Amasse Capital Limited, we consider that the Share Purchase Agreement I and the New Framework Agreement were entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Share Purchase Agreement I, the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps were agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We consider the entering into of the Share Purchase Agreement I, while not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. We consider that the entering into the New Framework Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Purchase Agreement I, the New Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
the Independent Board Committee

Zhang Ruijun	**Wong Lit Chor, Alexis**	**Ding Xiangqian**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser prepared for the purpose of incorporation in this circular.

AMASSE CAPITAL
寶 積 資 本

25 June 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND
(3) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Share Purchase Agreement I and the New Framework Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 25 June 2018 (the "**Circular**"), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 9 May 2018, Share Purchase Agreement I (amended by the Supplemental Agreement to Share Purchase Agreement I on 28 May 2018) was entered into by and among, Inspur Electronics, Seller I and the Company, pursuant to which Inspur Electronics conditionally agreed to purchase the entire issued share capital of Popular Vision Limited from Seller I for a total consideration of approximately RMB770,387,200 which will be satisfied by (i) the Company allotting and issuing 139,800,400 Shares to Seller I at the Issue Price of HK$2.65 per Consideration Share and (ii) the assumption of Shareholders' Loan (outstanding principal of RMB467,200,000 together with interest as at completion of the Share Purchase Agreement I) by Inspur Electronics.

The OpCo Group presently carries on certain continuing transactions with the Inspur Group Companies (including the Group). Upon completion of the Share Purchase Agreements, these ongoing transactions will become continuing connected transactions between the Group and the Inspur Group Companies (excluding the Group). The Group and the Inspur Group entered in the Framework Agreement on 12 September 2016 in respect of certain continuing connected transactions between them. As a result of the expected increase in the transaction amounts between the Group and the Inspur Group Companies following completion of the Share Purchase Agreements, the Group and the Inspur

Group entered in the New Framework Agreement on 9 May 2018. The New Framework Agreement is conditional on the approval of the Independent Shareholders at the EGM. The New Framework Agreement will replace the Framework Agreement when the New Framework Agreement has been approved by the Independent Shareholders.

As one or more of the applicable percentage ratios for Proposed Acquisition I and Proposed Acquisition II, on an aggregated basis, are more than 25% but all of the applicable percentage ratios are less than 100%, the Proposed Acquisitions, on an aggregated basis, constitute a major transaction for the Company and are subject to the reporting, announcement and shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

In addition, as Seller I is a controlling shareholder of the Company and thus a connected person of the Company, Proposed Acquisition I constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Inspur Group is a company established in the PRC and, as at the Latest Practicable Date, is interested in approximately 50.58% of the issued share capital of the Company through its subsidiaries. Under the Listing Rules, Inspur Group is a connected person of the Company and the transactions contemplated under the New Framework Agreement will constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios of the Annual Caps under the New Framework Agreement are expected to exceed 5%, the Continuing Connected Transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Share Purchase Agreement I and the New Framework Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company for the following transaction (the "**Previous Appointment**"):

Date of the relevant circular and our letter of advice	Nature of the transaction
7 September 2017	Mandatory conditional cash offers

With regard to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the Previous Appointment as well as the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence; (ii) we have maintained our independence from the Company during the Previous Appointment; (iii) the service fees received separately or aggregately from the Previous Appointment and the current appointment do not constitute a significant portion of our total revenue, and (iv) our independence from the Company has not been compromised because of the Previous Appointment. Accordingly, we consider that the aforementioned previous appointment would not affect our independence, and that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). We have reviewed information on the Company, including but not limited to, (i) the announcements of the Company dated 9 May 2018 and 28 May 2018, (ii) the Share Purchase Agreement I, (iii) annual reports of the Company for each of the years ended 31 December 2016 (the "**2016 Annual Report**") and 31 December 2017 (**the "2017 Annual Report**"), (iv) the valuation report prepared by the Company's independent valuer, Ascent Partners Valuation Service Limited and (v) other information contained in the Circular. We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Acquisition I and the Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular as a whole misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Proposed Acquisition I and the Continuing Connected Transactions or their respective subsidiaries or associates. We also have not considered any taxation implication on the Group or the Shareholders as a result of the Proposed Acquisition I and the Continuing Connected Transactions. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be construed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaims any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Proposed Acquisition I and the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

I. PROPOSED ACQUISTION I

1. Background information of the Group

As stated in the Letter from the Board, the Company is a company incorporated in the Cayman Islands with limited liability, whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 596). The principal activities of the Group are sales of information technology peripherals and software, software development and provision of software outsourcing services. The Group's recent business focuses include enterprise resource management services such as (1) enterprise cloud services including cloud accounting, human resource cloud, iGo cloud, and enterprise collaborative platform, and (2) software and data service business products in the areas of group control and financial sharing to help large-scale group enterprises making innovative functions in their management accounting system.

Set out below is a summary of the financial information of the Group as extracted from the 2017 Annual Report, the interim report of the Company for the six months ended 30 June 2016 (the "**2016 Interim Report**") and the interim report of the Company for the six months ended 30 June 2017 (the "**2017 Interim Report**"), details of which are as follows:

	For the year ended 31 December		**For the six months ended 30 June**	
	2017	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	1,317,951	1,163,170	550,669	521,703
Gross profit	431,672	342,161	154,053	152,841
Profit/(loss) before taxation	127,130	87,737	(11,864)	(4,190)
Profit/(loss) attributable to owners of the company	113,051	59,893	(12,635)	(5,179)

	As at 31 December		**As at 30 June**	
	2017	**2016**	**2017**	**2016**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Bank balances and cash	1,350,777	852,975	1,026,151	561,776
Total assets	3,056,640	2,658,157	2,678,114	2,514,528
Total equity	2,081,286	1,734,591	1,747,549	1,722,541

For the year ended 31 December 2017

Revenue for the year ended 31 December 2017 was approximately HK$1,318.0 million when compared to a revenue of approximately HK$1,163.2 million for the corresponding period in 2016, representing an increase of approximately 13.31%. The main reason for the increase in revenue is that 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 owners of the Company for the year ended 31 December 2017 was approximately HK$113.1 million when compared to a profit attributable to owners of the Company for the corresponding period in 2016 of approximately HK$59.9 million, representing an increase of approximately 88.75%.

Bank balances and cash as at 31 December 2017 amounted to approximately HK$1,350.8 million, which represented a increase of approximately 58.4% as compared to approximately HK$853.0 million as at 31 December 2016, and represented approximately 44.2% of the total assets of the Group at the same date.

The total equity of the Group as at 31 December 2017 amounted to approximately HK$2,081.3 million, which represented an increase of approximately 19.99% as compared to approximately HK$1,734.6 million as at 31 December 2016.

For the six months ended 30 June 2017

Revenue for the six months ended 30 June 2017 was HK$550.7 million when compared to a revenue of approximately HK$521.7 million for the corresponding period in 2016, representing an increase of approximately 5.55%. The revenue of software development and solution was approximately HK$411.8 million, representing an increase of 14.49% as compared with corresponding period of last year. The growth in revenue of software development and solution mainly comes from intelligent depot programs and solutions and software sale to largescale enterprise management .The software outsourcing business amounted to approximately HK$138.9 million, representing a decrease of 14.29% as compared with last corresponding period. The decline in revenue of this segment was because of the outsourcing orders from one major customer reducing substantially and new customers' orders failing to mark up for the losing.

Loss attributable to owners of the Company for six months ended 30 June 2017 was approximately HK$12.6 million when compared to a loss attributable to owners of the Company for the corresponding period in 2016 of HK$5.2 million, representing an increase of approximately 144.0%.

Bank balances and cash as at 30 June 2017 amounted to approximately HK$1,026.2 million, which represented an increase of approximately 82.7% as compared to approximately HK$561.8 million as at 30 June 2016, and represented approximately 38.3% of the total assets of the Group at the same date.

The total equity of the Group as at 30 June 2017 amounted to approximately HK$1,747.5 million, which represented an increase of approximately 1.5% as compared to approximately HK$1,722.5 million as at 30 June 2016.

2. Background information on the OpCo Group and the Seller I Group

The OpCo Group is principally engaged in software development and services in relation to the communications industry and transportation industry, as well as big data services business. Upon completion of the Share Purchase Agreements, Inspur Electronics will indirectly hold 75.99% of equity interest in OpCo Group.

Seller I, Inspur Overseas, is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Inspur Overseas is a wholly-owned subsidiary of Inspur Software Group, a substantial shareholder and thus a connected person of the Company. Inspur Software Group is a limited liability company established in the PRC, and, together with its subsidiaries, is principally engaged in software development and supply of integrated services, including system integration, cloud media platform, integrated IT solutions for government and large-scale corporations. Inspur Software Group is a controlling shareholder of the Company.

Seller I (as a wholly-owned subsidiary of Inspur Software Group) purchased 51% interest in OpCo on 2 June 2015 at RMB22,348,200 from Inspur (Shandong) Electronics Information Limited (浪潮(山東)電子信息有限公司), a wholly-owned subsidiary of the Company.

On 25 April 2017, OpCo acquired (i) 51% equity interest in Yuanshuo Technology and Tianyuan Weiye from Inspur Software Group, a controlling shareholder of the Company, at a consideration of RMB 246,075,000 and (ii) 49% equity interest in Yuanshuo Technology and Tianyuan Weiye from an Independent Third Party, at a consideration of RMB 236,425,000, respectively. On the same day, OpCo acquired 2.79%, 2.53% and 0.14% equity interest in Tianyuan Network from Inspur Software Group and several Independent Third Parties, at the total consideration of RMB 27,846,000. Upon completion of the above acquisitions, OpCo held 100% equity interest in each of Yuanshuo Technology and Tianyuan Weiye and 5.46% equity interest in Tianyuan Network.

Financial Information of the OpCo Group

The table below sets out selected financial information of the OpCo Group based on audited consolidated financial statements for the three years ended 31 December 2017.

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Revenue	398,325	560,150	561,657
Net profit before tax	(57,498)	35,352	49,464
Net profit after tax	(61,191)	19,297	44,516

The detailed financial information and discussion of the OpCo Group are set out in the Appendix IIA of this circular.

As at the Latest Practicable Date, the OpCo Group owns the Beijing Office Building which is located at Building No. 20, Zpark Zone (East), 10 Xibeiwang East Road, Haidian District, Beijing, PRC, with a total gross floor area of 20,165 m^2.

3. Principal terms of Share Purchase Agreement I

Set out below are the principal terms of Share Purchase Agreement I (amended by the Supplemental Agreement to Share Purchase Agreement I on 28 May 2018):

Date:

9 May 2018 (amended by the Supplemental Agreement to Share Purchase Agreement I on 28 May 2018)

Parties:

(1) Inspur Electronics (as purchaser);

(2) Seller I (as vendor); and

(3) The Company.

Seller I is a controlling shareholder of the Company and thus a connected person of the Company. Inspur Electronics is a wholly-owned subsidiary of the Company.

Subject of Proposed Acquisition I

Pursuant to Share Purchase Agreement I (amended by the Supplemental Agreement to Share Purchase Agreement I on 28 May 2018), Inspur Electronics, a wholly-owned subsidiary of the Company, conditionally agreed to purchase the entire issued share capital of Popular Vision Limited from Seller I.

As at the Latest Practicable Date, Popular Vision Limited indirectly owns 51% interest in the OpCo Group.

Consideration:

Pursuant to the Share Purchase Agreement I (amended by the Supplemental Agreement to Share Purchase Agreement I on 28 May 2018), the consideration payable by Inspur Electronics to Seller I under the Share Purchase Agreement I amounts to approximately RMB770,387,200 which consists of the following:

(1) approximately RMB299,800,000 shall be satisfied by the Company by allotting and issuing 139,800,400 Consideration Shares to Seller I at the Issue Price of HK$2.65 per Consideration Share; and

(2) the assumption of Shareholders' Loan (outstanding principal of RMB467,200,000 together with interest as at completion of the Share Purchase Agreement I which is expected to be approximately RMB3,387,200),

and the exchange rate shall be 1 HKD to 0.80924 RMB.

The consideration is subject to adjustment as described under the paragraph headed "Profit Guarantee".

The cash consideration payable by Inspur Electronics for the assumption of Shareholders' Loan will be satisfied by the internal resources of the Group.

As stated in the Letter from the Board, the Consideration is determined with reference to a valuation of approximately RMB1,110,000,000 while a final valuation is at RMB1,227,000,000, representing a difference of RMB117,000,000. Such difference in amount is larger than the net liability amount of the OpCo Group of RMB89,847,000. Furthermore, according to the audited consolidated financial statements of the OpCo Group for the two years ended 31 December 2016 and 2017, the OpCo Group recorded the net profit of RMB44,562,000 for the year ended 31 December 2017 as compared to the net profit of RMB19,297,000 for the corresponding period in 2016, representing an increase of 130.9%. Such increase is mainly due to increase in the gross margin of the software business and the decrease in administrative expenses. As advised by the Management, the OpCo Group has implemented various strategies since July 2015, including but not limited to streamlining staff, upgrading its business from a system integration manufacturer to a software company for improving the performance of the OpCo Group, thus the Company and each of Seller I and Seller II agreed to rely on the latest financial performance of the OpCo Group in determining the Consideration.

Profit Guarantee

As stated in the Letter from the Board, the parties have agreed on the following net profit targets for the OpCo Group for the years ending 31 December 2018 and 2019:

Net profit reference year	Net profit target
The twelve months ending 31 December 2018	RMB72,000,000
The twelve months ending 31 December 2019	RMB86,400,000

On 28 May 2018, the Company entered into a supplemental agreement to Share Purchase Agreement I with Inspur Electronics and Seller I, pursuant to which Seller I shall pay Inspur Electronics a sum calculated based on the following formula if the OpCo Group fails to meet the net profit target for the net profit reference year:

$$A = \frac{B - C}{B} \times D$$

Where:

"A" means the sum payable by Seller I if the OpCo Group fails to meet the net profit target for the net profit reference year

"B" means the relevant net profit target for the net profit reference year

"C" means the net profit recorded for the same period by the OpCo Group

"D" means the total consideration for Proposed Acquisitions, that is, RMB945,317,200.

If the OpCo Group records a net loss for the relevant period, the net loss shall be deemed to be zero for the purpose of calculating "A".

The sum payable by Seller I to Inspur Electronics under the profit guarantee provision shall not in any event exceed the total consideration for Proposed Acquisitions (that is, RMB945,317,200), excluding default interest (if any).

The net profit of the OpCo Group shall be determined based on the audited financial statements of the OpCo Group prepared in accordance with the Hong Kong Financial Reporting Standards. Such "net profit" shall be determined on or before 31 March of each net profit reference year and shall be final and conclusive in absence of manifest error.

The parties agree that the "net profit" shall mean the consolidated net operating profit (after tax) (excluding any changes in fair value of investment properties) of the OpCo Group for the two years ending on 31 December 2018 or 2019 (as the case may be).

The Company will comply with the disclosure requirement under rule 14A.63 of the Listing Rules, if actual performance fails to meet the target.

Taking into account that the total consideration of the Proposed Acquisitions will be reduced in proportion under the circumstance that the respective actual net profit of the OpCo Group in the respective net profit reference year does not match with the respective the net profit target. We are of the view that such mechanism is in the interest of the Company and the Shareholders as a whole and it serves as safeguard to the Group against the potential risk of unsatisfactory financial performance of the OpCo Group.

As stated in the Letter from the Board, the net profit targets for the two years ending 31 December 2018 and 2019 were determined following arm's length negotiations between Seller I and the Company and in consultation with the OpCo Group's management with reference to the OpCo Group's net profits for the two years ended 31 December 2016 and 2017.

We have discussed with the Management and are given to understand that there is reasonable basis for the OpCo Group to meet the net profit targets for the following reasons: (1) the audited net profit of the OpCo Group for the year ended 31 December 2017 is 2.31 times of that for the year ended 31 December 2016, and the net profit targets for the year ending 31 December 2018 is 62% higher than that for the year ended 31 December 2017, while the net profit target for the year ending 31 December 2019 is 20% higher than that in 2018; (2) the main customers of the OpCo Group are three major PRC telecommunications operators with stable customer base. Furthermore, based on data published by the Ministry of Industry and Information Technology of the PRC, the net profit growth of companies in the PRC software industry for the year ended 31 December 2017 and the four months ended 30 April 2018 were 15.8% and 11.4%, respectively. Based on the same set of data, the total revenue of companies in the PRC software industry for the year ended 31 December 2017 grew 13.9% (2016: 13.1%). The total revenue of companies in the PRC software industry for the four months ended 30 April 2018 grew 14.3% period on period, lending further support for an increasing trend. Accordingly, we concur with the views of the Directors that the net profits targets are justifiable and have reason to believe net profit targets are achievable barring unforeseen circumstances.

4. Analysis on the consideration

As advised by the Management, the consideration was determined after taking into account, among others, a preliminary valuation of the operating business (i.e. excluding the liability of RMB410,000,000 owed to a related company) of the OpCo Group of approximately RMB1,110,000,000 as at 31 March 2018 prepared by an independent valuer (the "**Valuer**") using the price-earnings approach, following arm's length negotiations of the parties. Subsequent to the Company's announcement dated 9 May 2018, the Valuer issued its final report (the "**Valuation Report**") with a valuation of RMB1,227,000,000 (the "**Valuation**") , details of which are set out in Appendix V to this circular.

We have considered and reviewed, among others, the Valuation as detailed in the Valuation Report as prepared by the Valuer, the texts of which are set out in Appendix V to the Circular and discussed with the Valuer regarding the methodology of and the principal bases and assumptions adopted for the Valuation.

(i) Competence of the Valuer

As part of our due diligence, we have reviewed the qualification and experience of the Valuer and the persons in charge of the Valuation. We note that the Valuer is a qualified professional valuation firm with extensive experience in performing (i) business valuation, (ii) financial instrument valuation, (iii) property, plant and machinery valuation, and (iv) natural resources and biological asset valuation. We understand that Mr. William Yuen and Mr. Paul Wu, who are the signatories of the Valuation Report, have extensive experiences in valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries.

In addition, we have also reviewed the terms of the Valuer's engagement and are satisfied the terms of engagement and the scope of work of the Valuer is appropriate to the opinion the Valuer is required to give. Furthermore, we have enquired with the Valuer as to its independence from the Group, and understood that the Valuer is an independent third party from the Group, the connected persons of the Group and the Seller I.

(ii) Valuation methodologies

We have reviewed the Valuation Report and discussed with the Valuer for the methodologies, basis and assumptions adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the cost approach, market approach and income approach. We have enquired into and the Valuer explained that, the cost approach and income approach are not appropriate for the valuation of the equity interest in the OpCo Group. As compared to income approach, market approach based mostly on the current factual financial performance and position, and less relying on financial forecast involving subjective assumptions. On the other hand, as compared to the cost approach, market approach captures current market expectations of the corresponding industry over the future growth potentials and economic benefits of the valuation target.

As advised by the Valuer, under the market approach, the guideline public company method (the "**GPC Method**") and guideline transaction method (the "**GTM Method**") are the two common methods. Given that there are sufficient public companies in a similar business and with a similar business model as those of the company being valued with shares being traded freely and actively on the markets, their market values are good indicators of the industry. In view of the above, the GPC Method is considered to be the preferred valuation method by the Valuer under the market approach for the valuation of the equity interest of the OpCo Group.

According to the Valuation Report, the Valuer has selected price-to-earnings ratio ("**PER**") based on the unaudited trailing twelve months profits as the most relevant multiple being adopted in the valuation of the OpCo Group. Upon our discussions with the Valuer, we are given to understand that in selecting the appropriate multiples to be adopted in the valuation analysis, the Valuer has considered price-to-book ratio and price-to-revenue ratio, being two of the commonly used benchmarks for valuation of companies. The price-to-book ratio is not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any market value added (as reflected by a price to book ratio of larger than 1), should have its own competencies and advantages. These intangible company-specific competencies and advantages are not captured in the price-to-book ratio and so it is not a good measurement of the market value of a company. The price-to-revenue ratio is not appropriate since revenue does not take into account the profitability of a company, which affects its value. PER is a commonly adopted method for evaluating profit making companies in order to reflect the relation between value of companies and their earning performances.

We also understand from the Valuer that, considering the small size of the OpCo Group, the adoption of size premium of 5.59% is considered reasonable (which was referenced to the "2017 Valuation Handbook - U.S. Guide to Cost of Capital" published by a global valuation and corporate finance advisor, Duff & Phelps Corporation). The application of the small size premium could provide the applicable adjustments to the value of the OpCo Group in order to reflect the size of the OpCo Group. Therefore we consider that it is fair and reasonable for adopting such size premium adjustment.

For the purpose of valuing the OpCo Group under the market approach using the GPC Method, the Valuer has identified 12 comparable companies (the "**Comparables**"). We have discussed with the Valuer concerning its selection criteria of the Comparables as disclosed in the Valuation Report and assessed the appropriateness of the Comparables selected. According to the Valuation Report, we note that the Valuer has conducted its search of comparable companies through Bloomberg, which are considered to be a reliable source for market information of the PRC and international markets. We have reviewed each of the Comparables and noted that the principal business of the Comparables is located in the PRC and principally engaged in the enterprise price software development and services related business. We consider that the selection criteria of the Comparables can effectively reflect the industry of the software business as at the date of the Valuation. As such, we are of the view that the selection criteria of the comparables are fair and reasonable and the Comparables identified by the Valuer are fair and representative for comparison.

A control premium generally represents the additional consideration that an investor would pay in order to own a controlling interest in the company. The Valuer considered that the Group has proposed to acquire majority interest of the OpCo Group, thus a control premium is applied. We have discussed with the Valuer and understand that the control premium of 30% was adopted according to a research paper "Value of Corporate Control: Some International Evidence" by Paul Hanouna, Atulya Sarin & Alan C. Shapiro. Apart from the above research paper, we have also referenced to "Control Premiums, Minority Discounts, and marketability Discounts" written by Philip Saunders. According to the aforementioned research paper, control premium usually ranges from 30.0% to 50.0%. Having considered that the control premium of 30.0% applied by the Valuer to the Valuation is within such ranges, we consider that applying 30.0% of control premium to the Valuation is reasonable.

As advised by the Valuer, the adjustments were made on the conclusion on the P/E multiples. The discount for lack of marketability (the "**DLOM**") apply in the Valuation. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. The DLOM is generally adopted to adjust the value of investment which is a privately held company while the price multiples applied in valuation is calculated from public listed companies, which represents marketable ownership interest. The adjustments for DLOM made by the Valuer for the purpose of the Consideration is, in our view, fair and reasonable, given that (i) the shares of the target companies not being publicly tradable, a discount should be imposed to address the lack of marketability or lack of liquidity of the OpCo Group; (ii) our belief that the marketability discount is commonly used in the valuation of companies; and (iii) the Valuer has confirmed that the valuation methodology is consistent with the international valuation guidelines and such adjustments were made based on its professional experience and judgment. We have also referenced "Control Premiums, Minority Discounts, and marketability Discounts" written by Philip Saunders and we noted that the mean and/or median of the DLOM are usually between 20.0% and 35.0%. Having considered that the DLOM of 16.11% is lower than such ranges, we consider it is reasonable to apply a DLOM of 16.11% to the Valuation.

(iii) Valuation assumptions

We have discussed with the Valuer in respect of the valuation assumptions applied in the Valuation. We noted that the valuation assumptions adopted by the Valuer are common assumptions adopted in business valuation, including but not limited to (i) there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the economy in general and the business of the OpCo Group; and (ii) the accuracy of the financial and operational information provided to the Valuer by the Company and the OpCo Group and relied to a considerable extent on such information in arriving at the Valuer's conclusion of value. We are not aware of any material facts which may lead us to doubt the principal basis and assumptions adopted for the Valuation.

As set out above, we are satisfied that (i) Valuer is independent from the Company and has sufficient experience and competency to perform the Valuation; (ii) scope of work of the Valuer is appropriate for the relevant engagement; and (iii) the valuation assumptions and methodologies used by the Valuer are fair and reasonable in relation to the Valuation. Based on the above, we are of the view that the Valuation performed by the Valuer is fair and reasonable. Taking into account the factors discussed above, we consider that the Valuation is an appropriate reference to assess the fairness and reasonableness of the Consideration and are of the view that the Consideration is fair and reasonable and in the interest of the Company and Shareholders as a whole.

4.1. The Consideration Shares

The Consideration Shares comprising a total of 186,184,400 Shares represent approximately 19.54% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.35% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company since the Latest Practicable Date up to the Completion Date). The aggregate nominal value of the Consideration Shares is HK$1,861,844.

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be obtained from the Independent Shareholders at the EGM. The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing issued Shares on the Completion Date and shall be credited as fully paid.

The Issue Price of the Consideration Shares at HK$2.65 per Consideration Share represents:

(i) a discount of approximately 6.69% to the closing price of HK$2.84 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 2.93% to the closing price of HK$2.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 2.21% to the average of the closing prices of HK$2.71 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

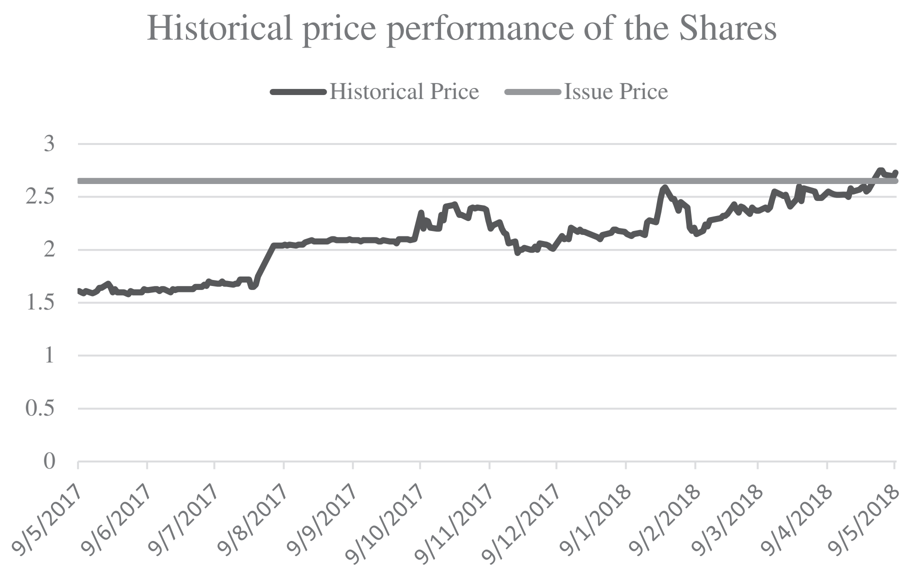
(iv) a discount of approximately 0.75% to the average of the closing prices of HK$2.67 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

(v) a premium of approximately 21.56% to the net asset value of the Company at HK$2.18 per Share as at 31 December 2017.

We are advised by the Management that the Issue Price was arrived at after arm's length negotiation between the parties with reference to the prevailing market price and historical performance of the Shares on the Stock Exchange.

(A) Historical price performance of the Shares

In order to assess the fairness and reasonableness of the Issue Price, we have compared the closing price level of the Shares traded on the Stock Exchange during 12-month period from 9 May 2017 up to the date of the Share Purchase Agreement I (the "**Review Period**") against the Issue Price. The historical price performance of the Share for the Review Period is as follows:



Source: the website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, the average closing price was approximately HK$2.12 per Share (the "**Average Closing Price**"). The daily closing price ranged from HK$1.58 per Share (the "**Lowest Closing Price**") to HK$2.75 per Share (the "**Highest Closing Price**") during the Review Period. We note that the closing price of the Share shows a gradual trend in the beginning of the Review Period and started to rise after July 2017.

The Issue Price of HK$2.65 represents a premium of approximately 25% over the Average Closing Price, a premium of approximately 67.7% over the Lowest Closing Price and a discount of approximately 3.6% to the Highest Closing Price. Although the Issue Price is lower than the Highest Closing Price, having considered that the Issue Price (i) is within the range of the closing price of the Shares during the Review Period; (ii) represent premium over the Average Closing Price; and (iii) is higher than the closing price for most of the time during the Review Period, we concur with the view of the Directors that the Issue Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(B) Comparable issues

As part of our analysis, we have conducted a research against connected transactions in relation to acquisition by listed companies in Hong Kong involving the issue of shares as all or part of the consideration (the "**Consideration Shares Comparables**"), announced by companies listed on the

Stock Exchange from 9 December 2017 to 9 May 2018 (the "**Selection Period**"), being the date of the Share Purchase Agreement I. We consider that the Selection Period is adequate and appropriate to capture the most recent market practice because the Consideration Shares Comparables are considered for the purpose of taking a market general reference to the most recent market practice in relation to the issue prices of other proposed issue of listed shares as compared to the relevant prevailing market share prices under the most recent market conditions and sentiments. To the best of our knowledge and as far as we are aware of, we identified an exhaustive list constituting 7 transactions which met the said criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Consideration Shares Comparables. Nevertheless, the Consideration Shares Comparables can demonstrate the market practices during the Selection Period.

				Premium/(discount) of the issue price over/(to) the closing price		
Date of announcement	**Stock Code**	**Company Name**	**Issue price**	**Last trading day prior to/on the date of the relevant announcement**	**Last 5 consecutive trading days prior to/on the date of the relevant announcement**	**Last 10 consecutive trading days prior to/on the date of the relevant announcement**
				approximately	*approximately*	*approximately*
			HK$	%	%	%
28/3/2018	1341	Hao Tian International Construction Investment Group Limited	0.40	17.65	15.61	24.61
14/2/2018	1717	Ausnutria Dairy Corporation Ltd	5.00	3.31	3.52	1.83
23/1/2018	1312	Tongfang Kontafarma Holdings Limited	0.50	0.00	0.00	(0.60)
18/1/2018	1196	Realord Group Holdings Limited	4.738	(7.82)	(7.46)	(8.74)
5/1/2018	1177	Sino Biopharmaceutical Limited	12.73	(9.97)	(7.95)	(4.43)
4/1/2018	82	V1 Group Limited	0.286	27.7	35.5	35.67
28/12/2017	6828	Beijing Gas Blue Sky Holdings Limited	0.50	0.00	(0.4)	(0.6)
			Maximum	27.7	35.5	35.67
			Minimum	(9.97)	(7.95)	(8.74)
			Average	4.41	5.55	6.82

Source: the website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the above table, the variance of the issue price of the Consideration Shares Comparables ranged from (i) a discount of approximately 9.97% to a premium of approximately 27.7% (the "**CS LTD Range**") with the average figure being a premium of approximately 4.41% on the respective last trading day prior to/on the date of the relevant announcement; and (ii) a discount of approximately 7.95% to a premium of approximately 35.5% (the "**CS 5-Days Range**") with the average figure being a premium of approximately 5.55% on the respective last 5 consecutive trading days prior to/on the date of the relevant announcement.

Having considered that (i) the Issue Price is higher than the average closing price of the Shares on a long-term basis as mentioned in the above section; and (iii) a discount of the Issue Price lie within the range of the CS LTD Range and the CS 5-Days Range, we are of the view that the Issue Price are fair and reasonable.

4.2 Settlement of the consideration

As advised by the Management, the proposed issue of the Consideration Shares and the payment of cash consideration was arrived at after due and careful consideration by the Board. Having considered the cash and cash equivalents of the Group as at 31 December 2017 which was approximately HK$1,364.9 million, the Group has sufficient cash to satisfy the entire consideration for the Acquisition with cash on hand. However, assuming such consideration was paid in full by cash, there would only be approximately HK$197 million left as balance of the Company's funds. The cash is mainly comprised of RMB-denominated deposits placed in the subsidiaries in China, therefore, additional approval procedures would be required to transfer such cash from China to Hong Kong to settle the transaction payments, which may result in the delay of completion of the transaction. In addition, the Group also has funding needs arising from further promotion of the transformation of enterprise SaaS service. The Directors were of the view that it would be the best to satisfy the consideration in cash and by the issue of Consideration Shares having considered (i) the funding needs for the Group's further business development and expansion; (ii) the Group's dividend policy, (iii) the Group's general working capital requirements; (iv) the desire of the Group to maintain a similar level of debt post-acquisition and control effective debt costs; (v) potential disadvantages of other equity financing alternatives; (vi) and the willingness of the Sellers to accept the Consideration Shares issued at a price representing a discount of approximately 0.75% to the average closing price of the Shares for the last ten trading days up to and including the Last Trading Day which demonstrates the Seller's positive view in the growth prospects of the business of the OpCo Group and that of the Group. Furthermore, we consider that the issue of the Consideration Shares to settle the consideration would not affect the immediate liquidity position of the Group and would allow the Company to complete the Proposed Acquisitions without any significant cash outlay, and the preserved cash could be applied towards its business operations and further business development and expansion. Accordingly, we concur with the view of the Directors that the settlement of the consideration by way of issuance of the Consideration Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. Reasons for and benefits of the Proposed Acquisitions

We are advised by the Management that 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 artificial intelligence 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 an enterprise SaaS service and data service provider, thus becoming the leading manufacturer of ERM and cloud services vendor in China.

Furthermore, as mentioned in the 2017 Annual Report, we note the business plan of the Group that 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 the overall product market presence. Meanwhile based on the ERM business, the Group 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. The Group will unite the business partners to establish industrial Internet ecosystem and promote SME cloudization. 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."

Having considered the above and the business plan of the Group, we are of the view that the Proposed Acquisition I is in line with the Group's stated strategy and represents an expansion of the cloud service business of the Group, and terms of the Share Purchase Agreement I are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

6. Effect on the shareholding structure of the Company

With reference to the shareholding table in the section headed "SHAREHOLDING STRUCTURE" of the Letter from the Board, the shareholding interests of the public Shareholders would be diluted by approximately 8.07% as a result of the issue of the Consideration Shares.

Although the shareholding of the existing public shareholders will be slightly diluted due to the issue of the Consideration Shares, taking into account (i) the reasons for and benefits of the Proposed Acquisitions; (ii) the terms of the Share Purchase Agreement I being fair and reasonable; and (iii) the terms of the Consideration Shares are fair and reasonable as discussed in section headed "The Consideration Shares" of this letter, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders is acceptable.

7. Financial effects of the Proposed Acquisitions

Upon completion of the Proposed Acquisitions, Opco will become an indirect subsidiary of the Company and its earnings, assets and liabilities will be consolidated into the accounts of the Group.

Earnings

Upon completion, the financial results of the OpCo Group will be consolidated into the Enlarged Group's consolidated accounts. Based on the audited financial statements for the year ended 31 December 2017 of the Seller I Group and Seller II Group as set out in Appendix IIA and Appendix IIA, and assuming that the Proposed Acquisitions had taken place on 1 January 2017, the net profit of the Group for the financial year ended 31 December 2017 is expected to increase from approximately HK$113,051,000 to approximately HK$155,891,000 as a result of the Proposed Acquisitions.

Assets and Liabilities

As of 31 December 2017, the Group's audited consolidated total assets and total liabilities amounted to approximately HK$3,056.64 million and approximately HK$ 975.35 million respectively. As set out in Appendix V to this circular, assuming the Proposed Acquisitions had taken place on 31 December 2017, the unaudited pro forma combined total assets of the Enlarged Group would increase to approximately HK$3,252.87 million and the unaudited pro forma combined total liabilities of the Enlarged Group would increase to approximately HK$1,469.63 million.

Further details of the financial effects of the Proposed Acquisitions on the Group's assets and liabilities and the basis of preparation of the unaudited pro forma financial information are set out in Appendix IV to this circular.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion.

II. CONTINUING CONNECTED TRANSACTIONS

1. Background of and reasons for the New Framework Agreement

Reference is made to the Company's announcements dated 12 September 2016 and 17 November 2016 and circular dated 27 October 2016.

The OpCo Group presently carries on certain continuing transactions with the Inspur Group Companies (including the Group). Upon completion of the Share Purchase Agreements, these ongoing transactions will become continuing connected transactions between the Group and the Inspur Group Companies (excluding the Group). The Group and the Inspur Group entered in the Framework Agreement on 12 September 2016 in respect of certain continuing connected transactions between them. As a result of the expected increase in the transaction amounts between the Group and the Inspur Group Companies following completion of the Share Purchase Agreements, the Group and the Inspur

Group entered in the New Framework Agreement on 9 May 2018. The New Framework Agreement is conditional on the approval of the Independent Shareholders at the EGM. The New Framework Agreement will replace the Framework Agreement when the New Framework Agreement has been approved by the Independent Shareholders.

The Group has established a long-term strategic business relationship with the Inspur Group Companies and has been conducting the Continuing Connected Transactions with the Inspur Group Companies for several years. By entering into the New Framework Agreement, the Group can continue to derive benefits from the Continuing Connected Transactions which can capture the synergic advantages of both the Group and the Inspur Group (including the established worldwide client network of the Inspur Group). The Continuing Connected Transactions under the New Framework Agreement comprise: Supply Transactions, Selling Agency Transactions, Purchase Transactions, Common Services Transactions and Lease.

We are advised by the Management that each of the Continuing Connected Transactions is either revenue in nature or supporting the principal business of the Group.

2. Principal terms of the New Framework Agreement

As stated in the Letter from the Board, the principal terms of the Continuing Connected Transactions under the New Framework Agreement are summarised below:

(i) Supply Transactions

The Group (including the OpCo Group, upon completion of the Share Purchase Agreements) supply and provide the Inspur Group Companies from time to time with software and cloud services including software outsourcing, ERM software and those software developed by the Group.

The parties have agreed that (a) the supply of such software and cloud services by the Group to the Inspur Group Companies shall be on normal commercial terms; (b) the service fees of such services to be supplied or provided by the Group will be agreed between the parties by reference to the prices of such services supplied by the Group to independent third parties at the relevant time; and (c) the Group shall not be obliged to accept any terms and conditions (including pricing terms) for the supply of such services which are less favourable than those agreed between any member of the Group and its independent third party customers for such services.

As advised by the Management, the Group has other customers for comparison purposes, the Company will select at least two Comparable Transactions when determining the prices to ensure that the prices of the products and the service fees of the services to be supplied under the Supply Transactions are not less favorable than those of the same (or similar) products or service supplied to Independent Third Parties at the relevant times.

The Group gives two-month credit period for the Inspur Group Companies to settle the service fees charged for the software and cloud services rendered.

(ii) Selling Agency Transactions

The Group appoints the Inspur Group Companies as its selling agent in respect of various IT service products of the Group (such as ERP software, finance software and other software products) as the Inspur Group owns the First-Class Certificate of the Computer Information System Integration Qualification (the "**Qualification**") granted by the Ministry of Industry and Information Technology of the PRC (the "**Ministry**"). The Ministry only grants around 200 enterprises the same Qualification as Inspur Group Companies throughout the PRC. This Qualification is certified by a third-party institution, i.e the China Information Technology Industry Federation, which confirmed that all aspects of the company's capacity have achieved the required levels, especially the Company's capacity on the computer science engineering and network system engineering.

Since the Group only owns the fourth-class certificate of the qualification granted by the Ministry and certain business of the Group is generated from public tenders that require the Qualification held by the Inspur Group Companies, the Group co-operate with Inspur Group Companies to participate in the public tenders requiring first-class qualification. The Group will participate in negotiation and finalization of the terms of supply of IT products to the ultimate third party customers and ensure that the supply of IT products is on normal commercial terms. The members of the Inspur Group Companies will place orders with the relevant members of the Group for supply of the products from time to time. After acceptance of the orders by the Group, the Group will directly provide the products to the customers. After the delivery of the products to the customers, the relevant members of the Inspur Group Companies will issue sale invoices to the customers and the relevant members of Group will issue sales invoice to the Inspur Group Companies for settlement of the products.

The Group pays selling agency commission of not more than 1% (calculated on the price of the relevant products payable by the customers) to the Inspur Group Companies for it to maintain its Qualification. The Inspur Group Companies will deduct the related commission from the price received from the customers and pay back the net proceeds to the Group within five days. In other words, the commission is the only fee received by the Inspur Group Companies from the Group. The balance of the fees is paid to the Inspur Group Companies only on a pass-through basis. The Inspur Group Companies are not end-customers in those transactions.

The Inspur Group Companies are the only selling agent appointed by the Group and the Group has not entered into any Comparable Transactions with independent third parties. The Group may lose some business generated from the public tenders that require the Inspur Group's Qualification if it terminates the appointment of Inspur Group Companies as its selling agent.

Meanwhile, the Company further understands that the Inspur Group Companies did not act as selling agent of entities other than members of the Inspur Group Companies and the Group in 2018. As such, the 1% commission is determined with reference to the Qualification Management Policy (資質管理有關規定) of the Inspur Group Companies pursuant to which the Inspur Group Companies will charge a selling agency commission of not more than 1% of the contract amount as general policy. The Qualification Management Policy is an internal control policy used by the Inspur Group Companies for governing the transactions relevant to the Selling Agency Transactions. However, it is highly unlikely for the Group to find an independent third party who owns the first-class qualification as Inspur Group Companies are charging the commission fee less than 1%. Moreover, other entities with the first-class qualification are limited in number and as business competitors of the Group, they would not offer selling agency services to the Group. As such, the Board is of the view that the 1% commission fee is lower than the average market rate and is fair and reasonable.

The total amount of such transactions recorded for the two years ended 31 December 2017 and 31 December 2016 only represents, respectively, approximately 28.31% and 27.99% of the Group's revenue for the same period. For the three years ending 31 December 2018, 2019 and 2020, as the Group will not have material changes or adopt other strategies in relation to such transactions, it is expected that this percentage will stay around 30% based on historical figures.

Moreover, with its own fourth-class certificate of the qualification, the Group is able to participate in public tenders and find third party customers, of which the scale of the transaction may be smaller than those requiring the first-class qualification. Therefore, the Board takes the view that the new annual caps for Selling Agency Transactions are appropriate and will not cause over-reliance on Inspur Group Companies.

(iii) Purchase Transactions

The Group purchases from the Inspur Group Companies various IT products from time to time including without limitation the IT server under the name of "Inspur", storage products and other accessories.

The Group purchases various products and components from the Inspur Group Companies. The actual quantity, specification, delivery date and price of such products to be provided by the Inspur Group are subject to individual orders placed by the Group. The parties have agreed that (a) the supply of products and components by the Inspur Group Companies to the Group shall be on normal commercial terms; (b) the price per unit of the products and components to be supplied by the Inspur Group Companies will be agreed between the parties with reference to, among other factors, the prices of such products supplied by the Inspur Group Companies to independent third parties at the relevant time; and (c) the Group shall not be obliged to accept any terms and conditions (including pricing terms) for the purchase of the products and components which are less favourable than those agreed between any member of the Inspur Group Companies and its independent third party purchasers for those products and components.

As advised by the Management, for determination of the price of the products and components supplied by Inspur Group Companies and the payment terms, the procurement department of the Company refers to at least two Comparable Transactions. The procurement department of the Company will ensure the prices of the products and components purchased from the Inspur Group Companies are not less favourable than the quotations or prices of the products and components with independent third parties. As the Group has other suppliers for similar IT products and IT services, the procurement department of the Company will refer to the commercial terms offered by other suppliers when determining the same with the Inspur Group Companies.

The Inspur Group Companies give two-month credit period for the Group to settle the price of the products and components after delivery. The Group makes the payment out of the Group's internal resources.

(iv) Common Services Transactions

The Inspur Group Companies provide services in respect of use of premises and property management ("common services") to the Group at fees determined with reference to the prevailing market rates and following arm's length negotiations. In general, the above fees are billed on a monthly basis.

As advised by the Management, for determination of the fees for using of premises and estate management, the administration department of the Company refers to at least two Comparable Transactions and those fees charged by Independent Third Parties for providing comparable premise renting and management services on market at the relevant time. The administration department of the Company will ensure that the fees to be charged by Inspur Group Companies under the Common Services Transaction are not less favourable than the fees charged by those Independent Third Parties.

(v) Lease

Upon completion of the Share Purchase Agreements, the Group will indirectly own the Beijing Office Building through the OpCo. The research office property currently has excess space which will not be occupied by the Group. The Company can lease out the excess space in the research office property and receive rent from Inspur Group Companies.

As advised by the Management, for determination of the rent, the administration department of the Company will refer to at least the prevailing rent of two comparable premises in the vicinity of the Beijing Office Building as a base factors, taking into account of the gross area which a potential lessee intends to lease, the creditworthiness of a potential lessee and the principal activities to be carried out by the lessee. The Company intends to attract research and development focused tenants for the Beijing Office Building in order to strengthen its profile and avoid fragmented lease terms.

In respect of our work done on the terms for the Continuing Connected Transactions:

Supply Transactions: we have obtained transaction samples from the Company and reviewed the documents, such as the agreements and 4 transaction records covering the period in 2017 with the Inspur Group Companies and also the relevant transactions with independent third parties. Based on our review and advices by the Management, we understand that the unit selling prices to the Inspur Group Companies were no less favourable to the Group as compared with that to the independent third parties;

Selling Agency Transactions: we have obtained transaction samples from the Company and reviewed the documents, such as the agreements and 4 transaction records covering the period in 2017 with the Inspur Group. Based on our review and advices by the Management, we understand that the selling agency commissions payable to the Inspur Group Companies were not more than 1% of the selling price;

Purchase Transactions: we have obtained transaction samples from the Company and reviewed the documents, such as the agreements, quotations and 2 transaction records covering the period in 2018 with the Inspur Group Companies and also the relevant transactions with independent third parties. Based on our review and advices by the Management, we understand that the unit price of products and components payable to the Inspur Group Companies were no less favourable to the Group as compared with that to the independent third parties;

Common Services Transactions: we have obtained transaction samples from the Company and reviewed the documents, such as the agreements and 4 transaction records covering the period from 2016 to 2017. Based on our review and advices by the Management, we understand that the unit prices of common services payable to the Inspur Group Companies were no less favourable to the Group as compared with that to the independent third parties; and

Lease: we have obtained rental transaction sample from the Company and reviewed the documents, such as the rental agreements and 4 rental transaction records covering the periods 2016 to 2017. Based on our review and advices by the Management, we understand that the rent and the terms under the Lease would not be more favorable than those offered to independent third parties.

In respect of credit periods for sales and procurements, we have reviewed the 2017 Annual Report and note that the group generally allows a credit period of 30 to 210 days for its receivables and 30 to 210 days for its payables, where we note that the credit periods of one to two months under the Continuing Connected Transactions are within the aforesaid ranges.

Furthermore, we noted from the 2017 Annual Report that the independent non-executive Directors reviewed the Continuing Connected Transactions and confirmed, among other things, the terms of the Continuing Connected Transactions are on terms no less favorable to the Group than with independent third parties, and the auditor of the Company also reported on the Continuing Connected Transactions.

3. Internal control measures

As mentioned in the Letter from the Board, the market strategies, including the pricing mechanisms, are determined by the Company's operations department. There is a segregation of duties between the Company's sales department and operation department. The sales department is responsible for contacting customers, setting quotation and entering into the contracts. The operation department is in charge of setting the price and other terms, through which it will control and monitor the fee quotation. The operation department will periodically review and conduct internal audit and, if necessary, adjust the pricing and commercial terms with reference to the market situation and the same or similar transactions entered into by the Inspur Group Companies with independent third parties.

The Directors (including independent non-executive directors of the Company) will review the pricing terms and the payment terms of the Continuing Connected Transactions each year so as to confirm that the relevant pricing terms and payment terms are fair and reasonable and on normal commercial terms or better than those offered to or by the Independent Third Parties.

As advised by the Management, the key internal control measures for the Continuing Connected Transactions include:

- for the Supply Transactions, the Group reviews the selling price of IT products and services to independent third parties at the relevant time when determining the prices of such IT products and services, such as computer components sold to independent third party customer within a month (if applicable), and ensure the selling price of such IT products and services to the Inspur Group Companies is no less favourable to the Group as compared with that to the independent third parties;

- for the Selling Agency Transactions, the Group ensures the selling agency commission payable to the Inspur Group Companies is not more than 1% of the selling price;

- for the Purchase Transactions, the Group reviews the prices of products and components supplied by the Inspur Group Companies to independent third party purchasers and ensure the procurement price of such products and components to the Inspur Group Companies is no less favourable to the Group as compared with that to the independent third parties;

- for the Common Services Transactions, the Group reviews the unit price of the common services with independent third parties and ensure the procurement price of such common services to the Inspur Group Companies is no less favourable to the Group as compared with that to the independent third parties;

- for the Lease Transactions, the Group reviews the unit price of the Lease Transactions with independent third parties and ensure the procurement price of such Lease Transactions to the Inspur Group Companies is no less favourable to the Group as compared with that to the independent third parties;

- in accordance with Chapter 14A of the Listing Rules, on an annual basis, (i) the independent non-executive Directors reviews the Continuing Connected Transactions and confirm, among other things, the terms of the Continuing Connected Transactions are on terms no less favourable to the Group than with independent third parties; and (ii) the auditors will also report on the Continuing Connected Transactions.

Furthermore, the Company's finance department provides guidance and advice to the Company's operation department on the amount incurred under the Continuing Connected Transactions each year. By monitoring the Continuing Connected Transactions, the finance department will analyse the implementation of the Continuing Connected Transactions monthly and ensure the compliance of the Annual Caps.

Having discussed with the Management and given that the internal control procedures as set out above, we are of the view that the internal control procedures adopted by the Company for the Continuing Connected Transactions are adequate.

4. Historical figures

Set out below are the historical amounts of the Continuing Connected Transactions between the Group and Inspur Group Companies for the three years ended 31 December 2017:

(All amounts in RMB'000)	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017
Supply Transactions	9,463	8,435	12,669
Selling Agency Transactions			
— (value of transactions)	323,192	270,258	310,868
— (related commission)	3,174	2,678	2,929
Purchase Transactions	50,131	22,963	19,363
Common Services Transactions	9,542	9,966	5,215
Lease	N/A	N/A	N/A

Set out below are the historical amounts of same types of transactions as the Continuing Connected Transactions between the OpCo Group and Inspur Group Companies for the three years ended 31 December 2017:

(All amounts in RMB'000)	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017
Supply Transactions	504	1,400	630
Selling Agency Transactions			
— (value of transactions)	47,927	62,485	90,511
— (related commission)	479	625	905
Purchase Transactions	51,786	14,977	22,255
Common Services Transactions	4,712	3,300	3,513
Lease	N/A	5,786	8,814

5. Annual Caps

The Annual Caps under the New Framework Agreement are:

(All amounts in RMB'000)	Year ending 31 December 2018	Year ending 31 December 2019	Year ending 31 December 2020
Supply Transactions	40,000	48,000	57,600
Selling Agency Transactions			
— (value of transactions)	600,000	720,000	864,000
— (related commission)	6,000	7,200	8,640
Purchase Transactions	72,000	86,400	103,680
Common Services Transactions	13,310	14,640	16,100
Lease	13,960	16,700	17,540

Note: the above annual cap amounts do not include any tax or duty (such as VAT).

In respect of the Annual Caps of the Continuing Connected Transactions, we have discussed with the Management and are given to understand that (i) the Board has estimated the transactions amounts for the year ending 31 December 2018 (the "**2018 Estimated Amount**") for each of the Continuing Connected Transactions. The 2018 Estimated Amount is potentially achievable based on the unfinished contracts for each Continuing Connected Transaction and the growth rate based on the actual achieved revenue of the Group and the OpCo Group; (ii) the Annual Caps for the Supply Transactions, Selling Agency Transactions and Purchase Transactions are based on the 2018 Estimated Amount and the annual growth rate of 20% (the "**Business Growth Rate**"), where the Business Growth Rate is the estimated annual growth rate of the Company's revenue from its software services; (iii) the Annual Caps for the Common Services Transactions are based on the 2018 Estimated Amount and the annual growth rate of 10% that has taken into account the relatively stable demand of common services (primarily being property leasing and management services) and general inflation; and (iv) the Annual Caps for the Lease are based on the expected area (approximately 7,641 sq.m) available to be leased out to Inspur Group, Inspur Software Group and their respective subsidiaries, the expected rental income (expected annual rental of approximately RMB13,960,000=7,641*RMB5 per day per sq.m*365) from the Lease for the year ending on 31 December 2018 and the prevailing market rents for comparable commercial properties near the Beijing Office Building, assuming stable demand and general inflation in 2019 and 2020, and hence a compound growth rate of 10% for the annual caps for 2019 and 2020.

In respect of the Business Growth Rate, we have reviewed the financial statements of the Company and note that the Company's revenue from its software services grew 25.6% from the year ended 31 December 2015 to the year ended 31 December 2016, and 19.25% from the year ended 31 December 2016 to the year ended 31 December 2017. Through the use of cloud computing, big data, networking, mobile internet and other technologies and through inheritance and innovation, the Group continues to focus on transition to the cloud operation and aims to become a leader of industry of enterprise management software and cloud service provider in the PRC. Given that (i) the Supply Transactions, the Selling Agency Transactions and the Purchase Transactions involve IT products and services, which are related to the principal businesses of the Group; (ii) the Business Growth Rate reflects the latest business growth trend of the Group; and (iii) the Group aims to continue to develop its principal businesses, we consider the adoption of the Business Growth Rate to be acceptable for the purpose of determining annual caps for the Supply Transactions, the Selling Agency Transactions and the Purchase Transactions.

In respect of the Common Services Transactions, we are enquired with the Management and are given to understand that the adoption of the annual growth rate of 10% of the Common Services Transaction is mainly derived from (i) increase in approximately 5% of the rental and management fees with reference to the expected general inflation rate of the PRC; and (ii) increase in approximately 5% of the demand in rental areas of the official premises. Moreover, we have reviewed the projections stated in the World Economic Outlook (April 2018 edition) published on the website of the International Monetary Fund, where we understand that inflation rate (average consumer prices) of the PRC is expected to be approximately 2.48%, 2.61% and 2.7% for each of the years ending 31 December 2018, 2019 and 2020, respectively. Having considered (i) the Common Services Transactions primarily relate to property leasing and management services, which are expected to have a stable demand; and (ii) the expected general inflation rate of the PRC, we consider the adoption of the compound annual growth rate of 10% to be acceptable for the purpose of determining Annual Caps for the Common Services Transactions.

In respect of the Lease, we have conducted research on the prevailing rental rates as quoted by property agents in the PRC for other premises in the vicinity of the Beijing Office Building. We also note that the rents to be payable by the Inspur Group Companies to the Group are in line with the prevailing market rates.

Taking into account the above, we are of the view that the Annual Caps for the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons above, despite the entering into of the Share Purchase Agreement I is not in the ordinary and usual course of the business of the Company, we consider that (i) the terms of the Proposed Acquisition I as contemplated under the Share Purchase Agreement I are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Proposed Acquisition I is in the interests of the Company and the Shareholders as a whole; and (iii) the terms of the New Framework Agreement are on normal commercial terms and entered into in the ordinary and usual cause of business of the Company, together with the Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to approve the Proposed Acquisition I as contemplated under the Share Purchase Agreement I and the New Framework Agreement at the EGM.

Yours faithfully,
For and on behalf of
Amasse Capital Limited
May Tsang
Director

Ms. May Tsang is a licensed person registered with the Securities and Future Commission of Hong Kong and regards as a responsible officer of Amasse Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO and has over 12 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2015, 31 December 2016 and 31 December 2017 is disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.inspur.com.hk/):

- annual report of the Company for the year ended 31 December 2015 published on 21 April 2016 (pages 56 to 198):

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0421/LTN201604211204.pdf

- annual report of the Company for the year ended 31 December 2016 published on 27 April 2017 (pages 70 to 218):

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0427/LTN201704272179.pdf

- annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 (pages 40 to 113):

  http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804272610.pdf

2. INDEBTEDNESS

As at the close of business on 30 April 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had total indebtedness amounted to approximately RMB483.5 million comprising (1) a loan from the ultimate holding company with outstanding carrying amount of approximately RMB3,397,000 which was unsecured, unguaranteed, interest-free and repayable on demand, (2) secured and unguaranteed loans from a fellow subsidiary of the Company bearing interest at 4.35% per annum with fixed repayment terms and outstanding carrying amount of approximately RMB467,200,000, (3) secured and unguaranteed factoring loans from bank bearing interest at 4.73% per annum with fixed repayment terms and outstanding carrying amount of approximately RMB4,522,000 and (4) secured and unguaranteed factoring loans from bank bearing interest at 5.16% per annum with fixed repayment terms and outstanding carrying amount of approximately RMB8,429,000.

As at the close of business on 30 April 2018, the Enlarged Group had no contingent liabilities.

Save as aforesaid, and apart from the intra-group liabilities, factoring bank loans and trade payables arised from the normal course of business, as at the close of business on 30 April 2018, the Enlarged Group did not have any debt securities, issued and outstanding or agreed to be issued, bank overdrafts or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources available to the Group including the internally generated funds and the available banking and other financing facilities, the expected completion of the Proposed Acquisitions and the transactions contemplated thereunder and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is mainly engaged in ERM related business and software outsourcing business. As disclosed in the 2017 Annual Report, for the year ended 31 December 2017, the Group recorded a revenue of HK$1,317,951,000, representing an increase of approximately 13.31% as compared with the prior year. The principal business of the Company increased in line with the year-on-year growth of 25.6% in revenue from the ERM related business for the year ended 31 December 2017 and profit attributable to shareholders for the year ended 31 December 2017 was approximately HK$113,051,000, representing an increase of 88.75% as compared with the prior year.

In 2018, the Company will continue to implement the "Data-centric" strategy and implement an aggressive market expansion strategy by focusing on the industry and core products. Meanwhile based on the ERM business, the Company will research and develop IOT and big data analysis products and build industrial internet platform. We help large-scale enterprises 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. 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 "leapfrog development of cloud service."

The OpCo Group is engaged in software development and services in relation to the communications industry and transportation industry, as well as big data services business. The Proposed Acquisitions are in line with the development strategy of the Group. Through acquisition and integration, we can further expand the Group's existing customer network, cooperate to facilitate the promotion and application of the Group's ERM-related business and enterprise SaaS service business to the communications industry and transportation industry, and expand the OpCo Group's established big data service solution, software and services products to the construction industry and intelligent grain sector in which the Group has a competitive advantage.

CHENG & CHENG LIMITED
Certified Public Accountants 鄭鄭會計師事務所有限公司

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTOR OF POPULAR VISION LIMITED

Introduction

We report on the historical financial information of Popular Vision Limited ("Popular") and its subsidiaries (together with Popular collectively referred to as the "The Popular Group") set out on pages 80 to 136, which comprises the consolidated statements of financial position as at 31 December 2015, 31 December 2016 and 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 80 to 136 forms an integral part of this report, which has been prepared for inclusion in the circular of Inspur International Limited (the "Company") dated 25 June 2018 in connection with the major transaction in relation to the proposed acquisition of 100% of the issued share capital of Popular (the "Acquisition").

Director's responsibility for the Historical Financial Information

The director of Popular is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the director of Popular determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The director of Popular are responsible for the contents of this Circular in which the Historical Financial Information of The Popular Group is included, and such information is prepared based on accounting policies materially consistent with those of Popular.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of Popular, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of The Popular Group's financial position as at 31 December 2015, 31 December 2016 and 31 December 2017 and of The Popular Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISION) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 80 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which states that during the year ended 31 December 2017, dividend with a total amount of RMB 18,827,000 has been proposed by the director of Popular and paid by The Popular Group.

CHENG & CHENG LIMITED
Certified Public Accountants

Chan Shek Chi
Practising Certificate no. P05540
Hong Kong, 25 June 2018

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Popular Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards which issued by Hong Kong Institute of Certified Public Accountants ("HKFRS") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

A. FINANCIAL INFORMATION

CONSOLIDATION STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
	Notes	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	6	398,325	560,150	561,657
Cost of income		(242,948)	(266,780)	(251,148)
Gross profit		155,377	293,370	310,509
Other income	7	49,263	38,041	31,274
Other gains and losses, net	7	(15)	50	—
Administrative expenses		(146,488)	(140,791)	(117,198)
Selling and distribution expenses		(113,542)	(152,821)	(170,545)
Finance costs	8	(2,093)	(2,497)	(4,576)
(Loss) Profit before tax	10	(57,498)	35,352	49,464
Income tax expenses	9	(3,693)	(16,055)	(4,948)
(Loss) Profit and total comprehensive (expense) income for the year		(61,191)	19,297	44,516
Total comprehensive (expense) income for the year attributable to:				
- Owners of the Company		(26,738)	9,830	22,681
- Non-controlling interests		(34,453)	9,467	21,835
		(61,191)	19,297	44,516

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December		
	Notes	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	14	404,321	395,012	388,009
Intangible assets	16	4,055	3,413	2,844
Deferred tax assets	28	15,166	1,180	2,599
Goodwill	15	31,209	31,209	31,209
		454,751	430,814	424,661
Current assets				
Inventories	17	671	—	—
Trade and bills receivables	18	201,258	240,248	212,127
Prepayments, deposits and other receivables	19	36,364	30,154	36,185
Amounts due from related parties	21	39,124	75,202	—
Financial asset at fair value through profit or loss		77	42	30
Profits tax refundable		12	97	2,087
Bank balances and cash	22	74,081	52,389	33,510
		351,587	398,132	283,939
Current liabilities				
Trade and bills payables	23	82,152	80,925	69,780
Other payables, deposits received and accrued expenses	24	107,633	102,028	116,842
Amounts due to customers for contract work	20	148,652	159,126	134,215
Bank loan	25	—	20,000	20,000
Amounts due to related parties	21	20,000	67,200	467,219
		358,437	429,279	808,056
Net current liabilities		(6,850)	(31,147)	(524,117)
Total assets less current liabilities		447,901	399,667	(99,456)
Non-current liabilities				
Deferred income — government grant	27	17,335	7,719	6,451
Deferred tax liabilities	28	37,015	36,220	41,107
		54,350	43,939	47,558
Net assets (liabilities)		393,551	355,728	(147,014)

		As at 31 December		
	Notes	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
Capital and reserves				
Share capital	26	—	—	—
Reserves		215,530	168,746	(102,990)
Equity attributable to owners of the Company		215,530	168,746	(102,990)
Non-controlling interests		178,021	186,982	(44,024)
Total equity (deficit)		393,551	355,728	(147,014)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserve	Merger reserve	(Accumulated loss) retained profits	Total	Non-controlling interest	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	—	—	50,000	(66,792)	(16,792)	—	(16,792)
Loss and total comprehensive expense for the year	(26,738)	(26,738)	(34,453)	(61,191)			
Appropriation to statutory reserve	—	1,430	—	(1,430)	—	—	—
Acquisitions of subsidiaries (note 2 (a))	—	—	255,272	—	255,272	216,262	471,534
Disposal of subsidiaries without loss on control	—	—	(21,472)	25,260	3,788	(3,788)	—
At December 2015	—	1,430	283,800	(69,700)	215,530	178,021	393,551
Profit and total comprehensive income for the year	—	—	—	9,830	9,830	9,467	19,297
Appropriation to statutory reserve	—	1,516	—	(1,516)	—	—	—
Additional interests acquired from non-controlling interests (note 2 (b))	—	—	599	(93)	506	(506)	—
Movement in reserve in consolidation	—	—	(57,120)	—	(57,120)	—	(57,120)
At December 2016	—	2,946	227,279	(61,479)	168,746	186,982	355,728
Profit and total comprehensive income for the year	—	—	—	22,681	22,681	21,835	44,516
Additional interests acquired from non-controlling interests (note 2 (c))	—	—	(246,075)	(29,515)	(275,590)	(234,756)	(510,346)
Dividend paid to controlling shareholders	—	—	—	(18,827)	(18,827)	—	(18,827)
Dividend paid to non-controlling interests	—	—	—	—	—	(18,085)	(18,085)
At December 2017	—	2,946	(18,796)	(87,140)	(102,990)	(44,024)	(147,014)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
(Loss) Profit before tax	(57,498)	35,352	49,464
Adjustments for:			
Depreciation of property, plant and equipment	6,734	11,389	11,852
Impairment loss on amount due from customer for contract work	354	86	—
Amortisation of intangible assets	290	578	569
Allowance for bad and doubtful debts	8,401	7,092	965
Reversal of allowance for bad and doubtful debts	(12,579)	—	—
Allowance for bad and doubtful debts on other receivables	702	280	109
Reversal of allowance for bad and doubtful debts on other receivables	(1,189)	—	—
Write-down of property, plant and equipment	161	161	120
Finance costs	2,093	2,497	4,576
Loss on disposal of a subsidiary	—	1,294	—
Fair value change on financial assets at fair value through profit or loss	—	35	12
Interest income	(359)	(315)	(505)
Operating cash flows before movements in working capital	(52,890)	58,449	67,162
Increase (decrease) in deferred income — government grant	1,460	(9,616)	(1,268)
Decrease in inventories	29,413	671	—
Increase (decrease) in trade and bills receivables and other receivables	133,611	(46,555)	21,016
Increase in amount due from related parties	(12)	—	—
(Decrease) increase in trade and bills payables and other payables	(128,414)	(1,391)	3,669
Increase (decrease) in amounts due to customers for contract work	3,383	10,388	(24,911)
Decrease in financial assets at fair value through profit or loss	1,460	—	—
Cash (used in) / generated from operations	(11,989)	11,946	65,668
Interest received	359	315	505
Income tax paid	(13,297)	(3,107)	(3,470)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES	(24,927)	9,154	62,703

	Year ended 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES			
Advance to related party	(39,124)	(36,078)	—
Repayment from related party	—	—	75,202
Purchase of property, plant and equipment	(5,967)	(2,271)	(4,969)
Net cash inflow from acquisition of subsidiaries under common control	133,258	—	—
Net cash outflow arising from disposal of a subsidiary	—	(80)	—
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	88,167	(38,429)	70,233
FINANCING ACTIVITIES			
Proceeds from bank borrowing	—	20,000	—
Payment for interest in subsidiaries	—	—	(246,075)
Purchase additional interest in non-controlling interests	—	—	(264,271)
(Repayment to) advance from a related party	(15,000)	(9,920)	400,019
Dividend paid to non-controlling interests	—	—	(18,085)
Dividend paid to controlling shareholders	—	—	(18,827)
Bank loan interest paid	(1,216)	(2,144)	(1,723)
Other loan interest paid	(877)	(353)	(2,853)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(17,093)	7,583	(151,815)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,147	(21,692)	(18,879)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	27,934	74,081	52,389
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	74,081	52,389	33,510
Analysis of balances of cash and cash equivalents			
Cash and bank balance	74,081	52,389	33,510

1. GENERAL INFORMATION

Popular Vision Limited ("Popular") was incorporated in the British Virgin Islands (the "BVI") on 2 January 2015 as a company with limited liability under the BVI Business Companies Act, 2004 of the British Virgin Islands. The registered office of Popular is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands

Popular is an investment holding company, and its subsidiaries (collectively referred as the "The Popular Group") principally engaged in software development. Its immediate holding company is Inspur Overseas Investment Limited, a company incorporated in the British Virgin Islands and its ultimate holding company is Inspur Group Co., Ltd., a company incorporated in the People Republic of China.

The Financial Information are presented in Renminbi (the "RMB") which is the same as the functional currency of The Popular Group.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Popular Group accounts for all its business combinations involving entities under common control using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG 5") issued by the HKICPA.

During the six months ended and as at 29 June 2015, Beijing Yuanshuo Technology Co., Ltd. ("Yuanshuo Technology") and Beijing Tianyuan Weiye Technology Co., Ltd. ("Tianyuan Weiye"), were wholly owned by independent individuals. As at the same date, Yuanshuo Technology and Tianyuan Weiye has 33.54% and 61% equity interest in Beijing Tianyuan Network Technology Co., Ltd. ("Tianyuan Network") respectively.

(a) On 30 June 2015, Inspur Software Group Co., Ltd. ("Inspur Software"), which is a fellow subsidiary of Popular, has acquired 2.67% equity interest of Tianyuan Network and 51% equity interest of both Yuanshuo Technology and Tianyuan Weiye from the independent individuals at considerations of RMB 13,332,000, RMB 86,124,000 and RMB 155,816,000 respectively. After the acquisition, Inspur Software has owned 97.21% in Tianyuan Network and 51% in both Yuanshuo Technology and Tianyuan Weiye as at 30 June 2015. As at 31 December 2015, the remaining 2.79% equity interest in Tianyuan Network was owned by independent individuals and the remaining 49% in both Yuanshuo Technology and Tianyuan Weiye were owned by an independent third party of the Popular Group. As at 31 December 2015, Tianyuan Network, Yuanshuo Technology and Tianyuan Weiye are the subsidiaries of Inspur Software with 97.21%, 51% and 51% equity interests respectively.

(b) As at 1 February 2016, Inspur Software, the fellow subsidiary of Popular, has acquired additional interest of 0.12% in Tianyuan Network at a consideration of RMB599,000 from the independent individuals and Inspur Software has owned 97.33% equity interest as at 31 December 2016. As at the same date, the independent third party which has 49% equity interest in both Yuanshuo Technology and Tianyuan Weiye, has acquired additional interest of 2.53% in Tianyuan Network from the independent individuals. As at 31 December 2016, Inspur Software has 97.33% equity interest in Tianyuan Network.

(c) As at 25 April 2017, Inspur Tianyuan Communications System Co., Ltd. ("Inspur Tianyuan"), which is an indirectly 51% owned subsidiary of Popular, has acquired 100% equity interest in both Yuanshuo Technology and Tianyuan Weiye from Inspur Software at a consideration of RMB 246,075,000 and from the above said independent third party at a consideration of RMB 236,425,000 respectively. As at the same date Inspur Tianyuan has acquired 2.79%, 2.53% and 0.14% equity interest in Tianyuan Network from Inspur Software, the above said independent third party and independent individuals respectively at total consideration of RMB 27,846,000. After the acquisition and as at 31 December 2017, Popular has 100% equity interest in both Yuanshuo Technology and Tianyuan Weiye and 100% equity interest in Tianyuan Network.

Pursuant to the Reorganisation and for the purpose of rationalising the OpCo Group's structure, Popular became the holding company of the subsidiaries now comprising the Popular Group immediately after the Reorganisation. The Target Company has not been involved in any other business prior to the Reorganisation and its operations do not meet the definition of business. The Reorganisation is merely a reorganisation of the Business and does not result in any changes in business substance. Accordingly, the Historical Financial Information of the companies now comprising the Popular Group is presented using the carrying value of the Business for all periods presented.

No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of combination.

In applying AG 5, The Popular Group's consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows have incorporated the results, changes in equity and cash flows of Tianyuan Network, Yuanshuo Technology and Tianyuan Weiye since 30 June 2015, which is considered as the date Tianyuan Network, Yuanshuo Technology and Tianyuan Weiye first came under the common control of The Popular Group prior to any changes in shareholding.

Going concern

In preparing the consolidated financial statements, the director of Popular have given careful consideration to the future liquidity of the Popular Group in light of the fact that its current liabilities exceeded its current assets by approximately RMB524,117,000 as at 31 December 2017 (2016: RMB31,147,000; 2015: RMB6,850,000).

In order to improve the Popular Group's financial position, to provide liquidity and cash flows and to sustain the Popular Group as a going concern, subsequent to the end of the reporting periods, Shangdong Huizhong Internet of Things Technology Co., Ltd. ("Shangdong Huizhong"), a fellow subsidiary of Popular, has agreed not to demand repayment of the amount due to it by the Popular Group of approximately HK$467 million as at 31 December 2017 in the next twelve months from the date of approval of these consolidated financial statements. The Company and the director of Popular have also agreed to provide continuous financial support to the Popular Group as necessary and after the completion of the Proposed Acquisitions, to enable the Popular Group to meet its financial obligations, as and when they fall due for the foreseeable future.

After the completion of the Proposed Acquisition, Inspur (Shandong) Electronics Information Limited ("Inspur (Shandong)"), a wholly-owned subsidiary of the Company, will acquire the whole amount due to Shangdong Huizhong (the "Liability"), which was RMB 467 million, as at the same date of the completion of the Proposed Acquisition. Inspur (Shandong) has agreed not to demand repayment of the amount due to it by the Popular Group of the same amount in the next twelve months from the date of the completion of the Proposed Acquisitions.

The director of Popular is of the opinion that, taking into account the above financial support from (i) the Company; (ii) the director of Popular and (iii) Inspur (Shandong) and the acquisition of the Liability by Inspur (Shandong) as described above, the Popular Group will have sufficient working capital to meet its cashflow requirements in the next twelve months. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The Historical Financial Information incorporate the financial statements of Popular and entities controlled by Popular and its subsidiaries. Control is achieved when Popular:

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of The Popular Group are eliminated in full on consolidation.

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

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

Changes in The Popular Group's ownership interests in existing subsidiaries

Changes in The Popular Group's ownership interests in subsidiaries that do not result in The Popular Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of The Popular Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Popular. When The Popular 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 Popular. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if The Popular 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Popular Group, liabilities incurred by the Popular Group to the former owners of the acquiree and the equity interests issued by the Popular Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Merger accounting for business combination involving entities under common control

The consolidated financial statements include the financial statements items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period unless the combining entities or businesses first came under common control at a later date.

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of The Popular Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, The Popular Group has consistently applied all new and revised HKFRSs, amendments and interpretation issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2017 throughout the Relevant Periods.

As the date of this report, The Popular 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 HKFRSs	Annual Improvements to HKFRSs 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

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

Classification and measurement:

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

Impairment:

- In general, the director of Popular 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 director of Popular, 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 director of Popular anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they 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.

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, 2016 and 2015, the Group has non-cancellable operating lease commitments of approximately RMB2,506,000, RMB3,992,000 and RMB30,000 respectively as disclosed in note 33. 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 the refundable rental deposits paid 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information 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.

The Historical Financial Information has been prepared on the historical cost basis except for investment in financial asset at fair value through profit or loss, which is 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 Popular 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 this Historical Financial Information is determined on such a basis except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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 its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transferred at fair value and a valuation technique that unobservable inputs are 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.

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.

Revenue recognition

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Popular 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.

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

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

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and building held for administrative purposes are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their 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.

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.

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 Popular 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 Popular Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that The Popular 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 Popular Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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.

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 Historical Financial Information 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 Popular Group's entities are translated from their functional currencies into the presentation currency of Popular (i.e. RMB) 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 Popular 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.

Retirement benefit 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 and other long-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.

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 Popular 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 Popular 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 Popular Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 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 recognised 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 and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Popular 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 Popular 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 measurable), 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.

Financial instruments

Financial assets and financial liabilities are recognised 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 ("FVTPL")) 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 Popular Group's financial assets are classified into fair value through profit or loss and loans and receivables. 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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of portfolio of identified financial instruments that the Popular Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

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 bills receivables, deposits and other receivables, amounts due from related parties 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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each 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 trade receivables could include The Popular Group's past experience of collecting payments, an increase in the number of delayed payments in the trade receivables past the credit period (ranging from 30 days to 365 days), and observable changes in national or local economic conditions that correlate with default on the receivables.

For loans and receivables, the amount of the impairment loss recognised is 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.

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.

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.

Equity instruments

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

Financial liabilities

Financial liabilities (including trade and bills payables, other payables, amount due to related parties, bank loan) are subsequently measured at amortised cost, using the effective interest method.

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.

Derecognition

The Popular 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 is recognised in profit or loss.

The Popular Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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 Popular Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Popular Group as lessee

Assets held under finance leases are recognised as assets of The Popular Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Popular Group makes payments for a property interest which includes both leasehold land and building elements, the Popular 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 Popular 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Popular Group's accounting policies, which are described in note 4, the director of Popular is required to make judgements, estimates and assumptions about the amounts of assets, labilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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.

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 Popular Group recognises contract revenue and profit on a software development contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of software development works. 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 the 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires The Popular Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, 2016 and 2017 the carrying amounts of goodwill were approximately RMB31,209,000 with no accumulated impairment losses recognised. Details of the recoverable amount calculations are disclosed in note 15.

Estimated impairment of trade and bills receivables

The Popular Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables and allowance for doubtful debts in the reporting periods in which such estimation has changed. As at 31 December 2015, 2016 and 2017, the carrying values of trade and bills receivables were approximately RMB201,258,000, RMB240,248,000 and RMB212,127,000 respectively. Based on the estimated recoverable amounts, impairment losses of approximately RMB11,640,000, RMB17,762,000 and RMB18,727,000 have been recognised in profit or loss during the track record period.

6. REVENUE

Revenue represents revenue arising on sales of IT peripherals and software and software development. An analysis of The Popular Group's revenue is as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from:			
- sales of IT peripherals and software	90,930	64,445	52,417
- software development	307,395	495,705	509,240
	398,325	560,150	561,657

7. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Other income:			
Interest income	359	315	505
Value added tax refund (note a)	14,940	14,490	16,048
Government subsidies and grants — conditional (note b)	6,699	9,616	1,268
Government subsidies and grants — unconditional (note b)	2,884	1,816	2,513
Rental income	10,597	9,751	10,836
Reversal of allowance for bad and doubtful debts	13,768	—	—
Others	16	2,053	104
	49,263	38,041	31,274
Other gains and losses, net:			
Loss on deregistration of subsidiary	(79)	—	—
Net foreign exchange gain	64	50	—
	(15)	50	—

notes:

(a) Inspur Tianyuan 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.

(b) For the three years ended 31 December 2015, 2016 and 2017, the amount of approximately RMB9,583,000, RMB11,432,000 and RMB3,781,000 represents the subsidies received from the PRC Government for the purpose of encouraging the development of group entities engaged in new and high technology sector. The conditioned grants received are recognised as income when i) the related feasibility studies have been completed, ii) the approval of the relevant Government authority has been obtained and iii) no other future conditions are required to fulfil by the Group.

8. FINANCE COSTS

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on			
- bank loan	1,216	2,144	1,723
- amounts due to related parties (Note 34 (c))	877	353	2,853
	2,093	2,497	4,576

9. INCOME TAX EXPENSES

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
PRC Enterprise Income Tax ("EIT")	10,352	3,022	1,480
Deferred tax (Note 28)	(6,659)	13,033	3,468
	3,693	16,055	4,948

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the Relevant Periods. No provision for Hong Kong Profits Tax has been made in the Financial Information for the Relevant Periods as there are no assessable profit.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The Popular Group 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

Details of deferred taxation for the Relevant Periods are set out in Note 28.

The income tax expense for the year can be reconciled to the profit before tax per statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(Loss) Profit before tax	(57,498)	35,352	49,464
Tax at PRC EIT applicable tax rates	(8,978)	4,089	6,517
Tax effect of expenses not deductible for tax purpose	11,971	15,250	5,382
Tax effect of income not taxable for tax purpose	(11,933)	(5,092)	(6,840)
Tax effect of tax losses and deductible temporary differences not recognised	3,908	3,227	—
Utilisation of tax losses previously not recognised	—	(1,856)	—
Underprovision in respect of previous years	8,729	900	(111)
Others	(4)	(463)	—
Income tax expenses for the year	3,693	16,055	4,948

10. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
(Loss) Profit before tax has been arrived at after charging (crediting):			
Auditor's remuneration	177	131	101
Allowance for bad and doubtful debts on trade receivables	8,401	7,092	965
Allowance for bad and doubtful debts on other receivables	702	280	109
Business trip expenses	24,167	34,676	37,798
Entertainment expenses	10,846	12,981	11,901
Reversal of allowance for bad and doubtful debts on trade receivables	(12,579)	—	—
Reversal of allowance for bad and doubtful debts on other receivables	(1,189)	—	—
Impairment loss on amounts due from customers for contract work contract work	354	86	—
Research and development costs recognised as expense	80,569	44,406	42,813
Fair value change on financial assets at FVTPL	—	35	12
Written off of property, plant and equipment	161	161	120
Depreciation for property, plant and equipment	6,734	11,389	11,852
Amortisation of intangible assets	290	578	569
Director' remuneration (Note 11)	—	—	—
Other staff costs			
Salaries and other benefits and retirement benefits scheme contributions	94,761	132,801	128,496
Operating lease rentals in respect of office premises and staff quarters	7,692	11,740	13,300

11. DIRECTOR' EMOLUMENTS

No emolument were paid or are payable to Mr. HE, Junlin, the sole director of Popular.

12. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in The Popular Group, none of them were director of Popular. Their aggregate emoluments for the three years ended 31 December 2015, 2016 and 2017 were as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	3,289	3,653	3,811
Retirement benefit scheme contributions	236	223	183
	3,525	3,876	3,994

The emoluments were within the following bands:

	Year ended 31 December		
	2015	**2016**	**2017**
	No. of employees	*No. of employees*	*No. of employees*
Nil to RMB1,000,000	5	5	5
RMB1,000,001 to RMB1,500,000	—	—	—
RMB1,500,001 to RMB2,000,000	—	—	—
	5	5	5

During the Relevant Periods, no emoluments were paid by The Popular Group to the director and the five highest paid individuals as an inducement to join or upon joining The Popular Group or as compensation for loss of office. None of the director and the employees waived or agreed to waive any emoluments paid by The Popular Group during the three years ended 31 December 2015, 2016 and 2017.

13. DIVIDEND

During 31 December 2017, dividend with a total amount of RMB 18,827,000 has been proposed by the director and paid by The Popular Group. No dividend has been proposed and paid for the years ended 31 December 2015 and 2016.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture fixtures and office equipment	Motor vehicles	Land and building	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
COST				
At 1 January 2015	13,854	334	—	14,188
Additions	454	—	5,513	5,967
Disposals/written off	(222)	(135)	—	(357)
Acquisition of subsidiaries (Note 31)	1,641	625	401,003	403,269
At 31 December 2015	15,727	824	406,516	423,067
Additions	2,271	—	—	2,271
Disposal of a subsidiary (Note 32)	(220)	—	—	(220)
Disposals/written off	(2,404)	(13)	—	(2,417)
At 31 December 2016	15,374	811	406,516	422,701
Additions	4,969	—	—	4,969
Disposals/written off	(458)	—	—	(458)
At 31 December 2017	19,885	811	406,516	427,212
ACCUMULATED DEPRECIATION				
At 1 January 2015	12,053	155	—	12,208
Charge for the year	1,623	65	5,046	6,734
Eliminated on disposals/written off	(188)	(8)	—	(196)
At 31 December 2015	13,488	212	5,046	18,746
Charge for the year	1,134	92	10,163	11,389
Disposal of a subsidiary (Note 32)	(190)	—	—	(190)
Eliminated on disposals/written off	(2,256)	—	—	(2,256)
At 31 December 2016	12,176	304	15,209	27,689
Charge for the year	1,601	88	10,163	11,852
Eliminated on disposals/written off	(338)	—	—	(338)
At 31 December 2017	13,439	392	25,372	39,203
CARRYING VALUES				
At 31 December 2015	2,239	612	401,470	404,321
At 31 December 2016	3,198	507	391,307	395,012
At 31 December 2017	6,446	419	381,144	388,009

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:

Furniture, fixtures and office equipment	10% - $33^1/_3$%
Motor vehicles	10% - 20%
Land and buildings	2.5%

15. GOODWILL

	RMB'000
COST	
At 1 January 2015	—
Arising on acquisition of subsidiaries (Note 31)	31,209
At 31 December 2015, 31 December 2016 and 31 December 2017	31,209
IMPAIRMENT	
At 1 January 2015, 31 December 2015, 31 December 2016 and 31 December 2017	—
CARRYING AMOUNT	
At 1 January 2015, 31 December 2015, 31 December 2016 and 31 December 2017	31,209

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit (CGU) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Sales of IT peripherals and software and software development	31,209	31,209	31,209

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of Popular covering a five-year period, and discount rate is 15%, determined by management of Popular using the income approach. The cash flows for the next five years are extrapolated using a steady average growth rate of 9%, for the CGU. The growth rate is based on the forecast of the relevant industry and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the units' historical performance and management's expectation of the market development. The management of Popular believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGU to fall below the respective carrying amount.

16. INTANGIBLE ASSETS

	Registered software
	RMB'000
COST	
At 1 January 2015	—
Acquisition of subsidiaries (Note 31)	4,345
At 31 December 2015	4,345
Disposal of a subsidiary (Note 32)	(92)
At 31 December 2016 and 31 December 2017	4,253
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2015	—
Amortisation	290
At 31 December 2015	290
Charge for the year	578
Eliminated on disposal of a subsidiary (Note 32)	(28)
At 31 December 2016	840
Charge for the year	569
At 31 December 2017	1,409
CARRYING AMOUNTS	
At 31 December 2015	4,055
At 31 December 2016	3,413
At 31 December 2017	2,844

The intangible assets of The Popular Group were acquired as part of business combinations in 2015.

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

Registered software	5 - 10 years

Included in administrative expenses:

	For the year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amortisation of intangible assets	290	578	569

17. INVENTORIES

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Finished goods	671	—	—

18. TRADE AND BILLS RECEIVABLES

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	207,056	255,191	227,418
Bills receivables	5,842	2,819	3,436
Less: Allowance for bad and doubtful debts	(11,640)	(17,762)	(18,727)
	201,258	240,248	212,127

The Popular Group allows a credit period 30 to 365 day to its customers for the Relevant Periods. The following is an aged analysis of trade and bills receivables net of allowance for bad and doubtful debts presented based on the invoice dates at the end of the Relevant Periods, which approximated the respective revenue recognition dates: -

	As at 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	6,715	32,247	32,917
31 to 60 days	40,862	29,734	15,454
61 to 90 days	19,320	20,313	4,731
91 to 120 days	24,496	14,443	19,454
121 to 180 days	23,126	33,877	9,261
Over 180 days	86,739	109,634	130,310
	201,258	240,248	212,127

Before accepting any new customer, The Popular Group assess the potential customer's credit quality and defines credit limits by customers. Limits and scoring attributed to customers are reviewed periodically, 78%, 82% and 80% of the trade and bills receivables at the end of 31 December 2015, 2016 and 2017 respectively that are neither past due nor impaired have the best credit scoring under the credit scoring system used by The Popular Group.

Included in The Popular Group's trade and bills receivable balance are debtors with aggregate carrying amount of approximately RMB111,060,000, RMB148,145,000 and RMB145,493,000 which are past due at the end of 31 December 2015, 2016 and 2017 respectively for which The Popular 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 Popular Group does not hold any collateral over these balances.

Movement in the allowance for bad and doubtful debts

	Year ended 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Balance at beginning of year	(15,818)	(11,640)	(17,762)
Allowances recognised on receivables	(8,401)	(7,092)	(965)
Disposals of subsidiaries	—	970	—
Reversal of allowance for bad and doubtful debts	12,579	—	—
Balance at the end of year	(11,640)	(17,762)	(18,727)

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB18,727,000 as at 31 December 2017 (2016: RMB17,762,000; 2015: RMB11,640,000) which have either been placed under liquidation or in severe financial difficulties. The impairment recognized represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	—	—	184
Deposits	1,968	6,582	4,124
Other receivables	36,508	25,884	34,221
Less: Provision for bad debts	(2,112)	(2,312)	(2,344)
	36,364	30,154	36,185

Movement in the allowance for bad and doubtful debts

	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Balance at beginning of the year	(2,599)	(2,112)	(2,312)
Allowance recognised on other receivables	(702)	(280)	(109)
Disposal of subsidiaries	—	80	77
Reversal of allowance for bad debts	1,189	—	—
Balance at the end of the year	(2,112)	(2,312)	(2,344)

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

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Contracts in progress at the end of the Relevant Periods:			
Contract costs incurred plus recognised profits less recognised losses	308,215	303,466	365,929
Less: Progress billings	(456,867)	(462,592)	(500,144)
	(148,652)	(159,126)	(134,215)
Analysed for reporting purposes as:			
Amounts due from contract customers	—	—	—
Amounts due to contract customers	(148,652)	(159,126)	(134,215)
	(148,652)	(159,126)	(134,215)

The management assessed the recoverable amounts of the contract costs and determined that costs incurred for certain long outstanding contracts were impaired. Impairment loss with amounts of RMB354,000 and RMB86,000 was recognised for year ended 31 December 2015 and 2016 respectively.

The balances of amounts due to customers for contract work are expected to be settled within twelve months after the end of the Relevant Periods.

21. AMOUNTS DUE FROM (TO) RELATED PARTIES

The amounts due to related parties are secured, with amounts of RMB20 million in 2015, RMB67 million in 2016 and RMB467 million in 2017 were interest bearing at rates of 6%, 6% and 4.35% respectively and the whole amounts are repayable on demand. The remaining amount is unsecured, interest free and repayable on demand.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by The Popular 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 1.35% for the Relevant Periods.

23. TRADE AND BILLS PAYABLES

Trade and bills payables principally comprise amounts outstanding for trade purposes and ongoing costs. The average credit period taken for trade purchases is 30 to 180 days.

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

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables			
0 - 30 days	49,327	66,604	57,523
31 - 60 days	6,072	3,670	1,958
61 - 90 days	12,876	3,260	263
Over 90 days	13,877	7,391	10,036
	82,152	80,925	69,780

24. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	341	—	—
Deposits received	20,643	10,822	16,197
Accrued expenses	86,649	91,206	100,645
	107,633	102,028	116,842

25. BANK LOAN

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Secured — at amortised cost			
Bank loan	—	20,000	20,000

The loan as at 31 December 2016 and 31 December 2017 were raised on 29 February 2016 and 27 February 2017 respectively. The loan term was one year and carries interest at the China benchmark interest rate for one-year lending plus 16% mark-up by the bank. The loan is guaranteed by an independent third party.

26. SHARE CAPITAL

	Number of shares	*RMB*
Ordinary shares of USD1 each		
Authorised:		
At 2 January 2015, 31 December 2015, 31 December 2016 and 31 December 2017	50,000	324,528
Issued and fully paid		
At 2 January 2015, 31 December 2015, 31 December 2016 and 31 December 2017	1	7

Popular's statement of changes in equity:

	Share capital *RMB*	Retained profits *RMB*	Total *RMB*
Balance at 2 January 2015	—	—	—
Total comprehensive income	—	—	—
Balance at 31 December 2015 and 1 January 2016	—	—	—
Issue of shares	7	—	7
Total comprehensive income	—	—	—
Balance at 31 December 2016 and 1 January 2017	7	—	7
Total comprehensive income	—	—	—
Balance at 31 December 2017	7	—	7

The nature and purpose of reserves within equity are as follows:-

Retained losses

Retained losses are the cumulative net losses of Popular.

27. DEFERRED INCOME — GOVERNMENT GRANT

Subsidiaries of Popular receive grants from the PRC Government for funding of some development projects which benefits the society as a whole. When the project is completed, the relevant PRC Government department will evaluate the quality of the results. The grants received are recognised as income when i) the related feasibility studies have been completed, ii) the approval of the relevant Government authority has been obtained and iii) no other future conditions are required to fulfil by the Group. If the subsidiaries of Popular are unable to fulfil all the conditions set out by the PRC Government department, the related grants would be returned to the PRC Government department.

The current portion of the deferred income — government grant represents grants received related to projects expected to be completed within one year from the end of the reporting period. For those related to projects more than one year will be included in non-current portion.

28. DEFERRED TAX ASSETS (LIABILITIES)

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

	Fair value adjustments on business combination	Unrealised profit/ loss arising from PRC subsidiaries	Provisions	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	—	—	—	—	—
Acquisition of subsidiaries	(30,146)	—	1,341	297	(28,508)
(Charge) credit to profit or loss	(6,869)	13,716	(240)	52	6,659
At 31 December 2015	(37,015)	13,716	1,101	349	(21,849)
(Charge) credit to profit or loss	795	(13,896)	—	68	(13,033)
Disposal of a subsidiary	—	—	—	(158)	(158)
At 31 December 2016	(36,220)	(180)	1,101	259	(35,040)
(Charge) credit to profit or loss	795	(4,263)	—	—	(3,468)
At 31 December 2017	(35,425)	(4,443)	1,101	259	(38,508)

	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	15,166	1,180	2,599
Deferred tax liabilities	(37,015)	(36,220)	(41,107)

29. CAPITAL RISK MANAGEMENT

The Popular Group manages its capital to ensure that entities in The Popular 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 Popular Group's overall strategy remains unchanged from prior periods.

The capital structure of The Popular Group consists of equity attributable to owners of Popular, comprising issued share capital and reserves.

The director 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 director of Popular, The Popular Group will balance its overall capital structure through new share issues as well as the issue of new debt.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Trade and bill receivables	201,258	240,248	212,127
Other receivables	34,396	23,572	31,877
Amounts due from related parties	39,124	75,202	—
Bank balances and cash	74,081	52,389	33,510
Loan and receivables (including cash and cash equivalents)	348,859	391,411	277,514
Financial asset at fair value through profit or loss	77	42	30
	348,936	391,453	277,544
Financial liabilities at amortised cost			
Trade and bills payables	82,152	80,925	69,780
Other payables	11,321	9,002	8,528
Bank loan	—	20,000	20,000
Amounts due to related parties	20,000	67,200	467,219
	113,473	177,127	565,527

(b) Financial risk management objectives and policies

The Popular Group's major financial instruments include trade and bills receivables, other receivables, amounts due from related parties, financial asset at fair value through profit or loss, bank balances and cash, trade and bills payables, other payables and accrued expenses, bank loans and amounts due to related parties. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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 in a timely and effective manner.

Market risk

Currency risk

Other than Popular and its subsidiaries established in the Hong Kong and overseas of which functional currency is Hong Kong dollar ("HK$") and United States dollars ("USD") respectively, the functional currency of the other subsidiaries is RMB. As substantially all of the financial instruments, revenue, operating costs and expenses are denominated in RMB, The Popular Group's operation is not exposed to significant foreign currency risk.

Interest rate risk

The Popular Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowing and bank balances.

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

The Popular 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 loan in the PRC. The analysis is prepared assuming the PRC bank loan outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used for the reporting period which represents management's assessment of the reasonably possible change in interest rates.

	Carrying amount	**Increase in post-tax profit**	**Decrease in post-tax profit**
	RMB'000	*RMB'000*	*RMB'000*
2017			
Bank balances	74,021	315	370
Bank loans	20,000	850	10,000
2016			
Bank balances	45,941	196	230
Bank loans	20,000	850	10,000
2015			
Bank balances	33,413	142	167
Bank loans	—	—	—

Other price risk

The Group is not exposed to significant other price risk through its investments in listed equity securities which is classified as financial asset at fair value through profit or loss.

Credit risk

The Popular Group's maximum exposure to credit risk in the event of the customers to perform their obligations as at 31 December 2015, 2016 and 2017 in relation to recognised trade receivables 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 Popular 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 Popular Group reviews the recoverable amount of each individual trade and bills receivable, other receivables and amounts due from related parties at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Popular Group's trade and bills receivables as at 31 December 2015, 2016 and 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 director of Popular consider that The Popular Group's credit risk is significantly reduced.

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

The Group is also exposed to counterparties credit risk from its operating activities, primarily attributable to software development contracts. The director of Popular believe that the customers are having high credit quality and the Group has policy in place to ensure that the customers are with an appropriate credit history. The Group has no concentration of credit risk and had no significant outstanding balances due by customers at the reporting date. Accordingly, the overall credit risk is considered minimal.

Other than concentration of credit risk on trade and bills receivables and other receivables as described above and on bank balances, which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk on other financial assets.

Liquidity risk

In the management of the liquidity risk, The Popular Group monitors and maintains adequate cash and cash equivalents by continuously monitor forecast and actual cash flows and matching the maturity profiles of certain financial assets (including trade and bills receivable, other receivables, amounts due from related parties and bank balances and cash) and certain financial liabilities (including trade and bills payables, other payables bank loan and amounts due to related parties).

The following table details The Popular 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 Popular Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 6 months	6 months to 1 year	1 to 5 years	Total undiscounted cash flows	Total carrying amount at 31.12.2015
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2015							
Trade and bills payables	—	82,152	—	—	—	82,152	82,152
Other payables	—	11,321	—	—	—	11,321	11,321
Amount due to related parties							
- Interest bearing	6.00%	20,000	—	—	—	20,000	20,000
		113,473	—	—	—	113,473	113,473

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 6 months	6 months to 1 year	1 to 5 years	Total undiscounted cash flows	Total carrying amount at 31.12.2016
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2016							
Trade and bills payables	—	80,925	—	—	—	80,925	80,925
Other payables	—	9,002	—	—	—	9,002	9,002
Amount due to related parties							
- Interest bearing	6.00%	67,200	—	—	—	67,200	67,200
Bank loan	5.05%	20,278	—	—	—	20,278	20,000
		177,405	—	—	—	177,405	177,127

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 6 months	6 months to 1 year	1 to 5 years	Total undiscounted cash flows	Total carrying amount at 31.12.2017
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2017							
Trade and bills payables	—	69,780	—	—	—	69,780	69,780
Other payables	—	8,528	—	—	—	8,528	8,528
Amount due to related parties							
- Non-interest bearing	—	19	—	—	—	19	19
- Interest bearing	4.35%	467,200	—	—	—	467,200	467,200
Bank loan	5.05%	20,278	—	—	—	20,278	20,000
		565,805	—	—	—	565,805	565,527

(c) Fair value measurements of financial instruments

This note provides information about how The Popular Group determines fair values of various financial assets and financial liabilities.

Some of the Popular Group's assets are measured at fair value for financial reporting purposes. The management will determine the appropriate valuation techniques and inputs for fair value measurements.

Fair value of financial asset at fair value through profit or loss is determined based on quoted bid price in an active market and it is categorized into Level 1 for its fair value measurement.

(d) 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 is required)

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

There were no transfers into or out of Level 1 during the year.

31. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2015, Inspur Software entered into a series of sale and purchase agreements with the natural person shareholders of Tianyuan Network, Tianyuan Weiye and Yuanshuo Technology in relation to the acquisition of 2.786%, 51% and 51% share capital of the abovementioned companies, which are principally engaged in the provision software development services in the PRC at a cash consideration of approximately RMB 255,272,000 in total. The acquisition was completed on 30 June 2015.

The fair value of the identified assets acquired and liabilities assumed in the above acquisition as at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	403,269
Intangible assets	4,345
Deferred tax assets	1,638
Inventories	30,084
Trade and other receivables	89,172
Financial asset at fair value through profit or loss	1,537
Bank balances and cash	133,258
Tax liabilities	(867)
Trade and other payables	(171,965)
Amounts due to related party	(20,000)
Deferred tax liabilities	(30,146)
Net assets acquired	440,325
Goodwill arising on acquisition	
Consideration transferred	255,272
Plus: Non-controlling interest	216,262
Less: Net assets acquired	(440,325)
Goodwill arising on acquisition	31,209
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	133,258
	133,258

As a result of the acquisition, the Group is expected to increase its sources of income for the group in future. The goodwill of approximately RMB31,209,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the Targets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Transaction cost of the acquisition is immaterial.

Had the acquisition been completed on 1 January 2015, total group revenue for the year would be RMB432,291,000, and loss for the year would have been RMB66,541,000. The pro forma information is for illustrative purposes only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been competed on January 1, 2015, nor is it intended to be a projection of future results.

The fair value of trade and other receivables at the date of acquisition amounted to RMB89,172,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB89,172,000 at the date acquisition. The full amount is expected to be collected.

The non-controlling interests (49%) in Tianyuan Network, Tianyuan Weiye and Yuanshuo Technology recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to RMB216,262,000. This fair value was estimated by applying income approach The key model inputs used in determining the fair value: was assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interests in Tianyuan Network, Tianyuan Weiye and Yuanshuo Technology .

32. DISPOSAL OF A SUBSIDIARY

On 19 December 2016, Tianyuan Network, a wholly owned subsidiary of Popular entered into a sale agreement with Inspur Software Group Company Limited, which is wholly owned subsidiary of IPG, pursuant to which Tianyuan Network agreed to sell and Inspur Software agreed to acquire the 100% equity interest of Beijing Tianyuan Innovation Technology Co., Ltd. ("Tianyuan Innovation"), a subsidiary of Tianyuan Network engaged in provision of consultancy and software development, at the total cash consideration of RMB23,050,000. The disposal was effected in order to generate cash flows for the expansion of The Popular Group's other businesses. The disposal was completed on 19 December 2016, on which date control of Tianyuan Innovation was passed to the acquirer.

The net assets of Tianyuan Innovation on the completion date of disposal, i.e. 19 December 2016, were as follows:

	RMB'000
Consideration received:	
Cash received	23,050

	19.12.2016
	RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	30
Intangible assets	64
Deferred tax assets	158
Trade and bills receivables	6,001
Prepayment, deposits and other receivables	402
Bank balances and cash	23,130
Trade and bills payables	(2,301)
Other payables and accrued liabilities	(3,140)
Net assets disposal of	24,344
Loss on disposal of a subsidiary:	
Total consideration	23,050
Net assets disposal of	(24,344)
Loss on disposal	(1,294)

The loss on disposal is included in the "administrative expenses" in the profit or loss for the year ended 31 December 2016.

Net cash outflow arising on disposal:	
Cash received	23,050
Less: bank balances and cash disposed of	(23,130)
	(80)

33. OPERATING LEASE COMMITMENTS

The Popular Group as lessee

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

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,816	3,990	30
In the second to fifth years inclusive	691	2	—
	2,507	3,992	30

Operating lease payments represent rentals payable by The Popular 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.

The Popular Group as lessor

Property rental income earned during the three years of 31 December 2015, 2016 and 2017 was approximately RMB10,597,000, RMB9,751,000 and RMB10,836,000.

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

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	3,706	3,118	1,004
In the second to fifth years inclusive	3,238	3,245	1,118
	6,944	6,363	2,122

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, The Popular Group has entered into the following transactions with related parties.

(a) Compensation to key management personnel

The key management personnel are the director and executives of Popular Company. Details of the remuneration paid to the director are set out in note 11.

(b) Financing arrangements

		Year ended 31 December		
		2015	**2016**	**2017**
	notes	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties	(i)	39,124	75,202	—
Amounts due to related parties	(i)	—	—	19
Amounts due to related parties - interest-bearing	(ii)	20,000	67,200	467,200

notes:

(i) The outstanding balances with these related parties, which are the fellow subsidiaries of Popular, were unsecured, interest free and had no fixed repayment terms.

(ii) The loans as at 31 December 2017 bearing interest at 4.35% (2016: 6%; 2015: 6%) per annum, were secured and had fixed repayment terms.

(c) Material related party transactions

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses to related parties	877	353	2,853

35. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests
2015		
Yuanshuo Technology	PRC	46.3%
2016		
Yuanshuo Technology	PRC	46.3%
2017		
Inspur Tianyuan	PRC	49%

Summarised financial information in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below:

	Yuanshuo Technology 2015 *RMB'000*	Yuanshuo Technology 2016 *RMB'000*	Inspur Tianyuan 2017 *RMB'000*
Current assets	126,845	149,064	281,872
Non-current assets	414,076	399,047	424,660
Current liabilities	(87,344)	(101,993)	(748,819)
Non-current liabilities	(39,506)	(38,711)	(47,558)
Equity attributable to owners of the subsidiary	222,216	218,620	(45,821)
Non-controlling interests	191,855	188,787	(44,024)
Revenue	73,607	134,663	561,657
Profit and total comprehensive income attributable to owners of the subsidiary	(14,067)	(3,595)	18,646
Profit and total comprehensive income attributable to the non-controlling interests	(12,167)	(3,068)	17,960
Profit for the year	(26,254)	(6,663)	36,606
Net cash (used in) from operating activities	(43,868)	(34,086)	124,109
Net cash used in investing activities	(4,507)	(2,175)	(4,969)
Net cash (used in) from financing activities	(15,000)	10,000	(139,331)
Dividend paid to non-controlling interests	—	—	—

36. PARTICULAR OF SUBSIDIARIES

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share/ registered capital held by Popular 2015	2016	2017	Principal activities
First Communication Software Limited	Hong Kong		100%	100%	100%	Investment holding
Ji'nan Inspur Yuantong Information Technology Co., Ltd.	PRC		100%	100%	100%	Investment holding
Inspur Tianyuan	PRC		51%	51%	51%	Sales of IT peripherals and software and software development
Yuanshuo Technology	PRC		51%	51%	100%	Investment holding
Tianyuan Weiye	PRC		51%	51%	100%	Investment holding
Tianyuan Network	PRC		97.21%	97.33%	100%	Sales of IT peripherals and software and software development
Chongqing Qingtian Boyuan Technology Co., Ltd.	PRC		100%	100%	100%	Software development

37. STATEMENT OF FINANCIAL POSITION OF POPULAR

The following is the statement of financial position of Popular as at three years ended of the Relevant Periods:

	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Non-current asset			
Investment in subsidiary	—	90	83
Current asset			
Amounts due from a related company	—	7	7
Current liability			
Amounts due to a subsidiary	—	(90)	(83)
Net current liability	—	(83)	(76)
Net assets	—	7	7
Equity			
Share capital	—	7	7

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Popular 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 Popular Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loan	Amounts due to related parties	Interest payables	Dividend payables	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	—	—	—	—	—
Acquisition of subsidiary	—	35,000	—	—	35,000
Financing cash flows	—	(15,000)	(2,093)	—	(17,093)
Interest expenses	—	—	2,093	—	2,093
At 31 December 2015	—	20,000	—	—	(20,000)
Acquisition of subsidiary	—	57,120	—	—	57,120
Financing cash flows	20,000	(9,920)	(2,497)	—	7,583
Interest expenses	—	—	2,497	—	2,497
At 31 December 2016	20,000	47,200	—	—	67,200
Financing cash flows	—	400,019	(4,576)	(36,912)	358,531
Interest expenses	—	—	4,576	—	4,576
Dividend declared	—	—	—	36,912	36,912
At 31 December 2017	20,000	447,219	—	—	467,219

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by The Popular Group, Popular or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

CHENG & CHENG LIMITED
Certified Public Accountants 鄭鄭會計師事務所有限公司

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTOR OF DEPOT WEALTH LIMITED

Introduction

We report on the historical financial information of Depot Wealth Limited ("Depot") and its subsidiaries (together with the Depot collectively referred to as the "Depot Group") set out on pages 139 to 158, which comprises the consolidated statements of financial position as at 31 December 2015, 31 December 2016 and 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the three years ended 31 December 2017 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 139 to 158 forms an integral part of this report, which has been prepared for inclusion in the circular of Inspur International Limited (the "Company") dated 25 June 2018 in connection with the major transaction in relation to the proposed acquisition of 51% of the issued share capital of Depot Wealth Limited (the "Acquisition").

Director's responsibility for the Historical Financial Information

The director of Depot is responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the director of Depot determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of Depot Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of Depot, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Depot Group's financial position as at 31 December 2015, 31 December 2016 and 31 December 2017 and of the Depot Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISION) ORDINANCE

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page 139 have been made.

Dividends

No dividend was paid or proposed by Depot during the Relevant Period, nor has any dividend been proposed by Depot since 31 December 2017.

CHENG & CHENG LIMITED
Certified Public Accountants

Chan Shek Chi
Practising Certificate no. P05540
Hong Kong, 25 June 2018

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Depot Group for the Relevant Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards which issued by Hong Kong Institute of Certified Public Accountants ("HKFRS") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

A. FINANCIAL INFORMATION

CONSOLIDATION STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
	Notes	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	5	—	—	—
Cost of income		—	—	—
Gross profit		—	—	—
Other (losses)/gain, net	6	(963)	(1,536)	1,673
Share of result of an associate	13	(21,472)	—	—
Administrative expenses		—	(2)	(4)
(Loss) Profit before tax	8	(22,435)	(1,538)	1,669
Income tax expenses	7	—	—	—
(Loss) Profit for the year		(22,435)	(1,538)	1,669
(Loss) Profit and total comprehensive (loss) income for the year		(22,435)	(1,538)	1,669
(Loss) Profit for year attributable to owners of the Company		(22,435)	(1,538)	1,669

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2015 *RMB'000*	2016 *RMB'000*	2017 *RMB'000*
Non-current assets				
Interest in an associate	13	—	—	—
Current assets				
Bank balances and cash	12	1,026	904	840
Current liabilities				
Shareholder's loan	14	23,461	24,877	23,144
Net current liabilities		(22,435)	(23,973)	(22,304)
Total assets less current liabilities		(22,435)	(23,973)	(22,304)
Net liabilities		(22,435)	(23,973)	(22,304)
Capital and reserve				
Share capital	15	—	—	—
Retained losses	15	(22,435)	(23,973)	(22,304)
Total deficit		(22,435)	(23,973)	(22,304)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained losses	Total
	RMB'000	*RMB'000*	*RMB'000*
Incorporation of company on 9 February 2015	—	—	—
Loss for the year	—	(22,435)	(22,435)
Total comprehensive expenses for the year	—	(22,435)	(22,435)
At December 2015	—	(22,435)	(22,435)
Loss for the year	—	(1,538)	(1,538)
Total comprehensive expenses for the year	—	(1,538)	(1,538)
At December 2016	—	(23,973)	(23,973)
Profit for the year	—	1,669	1,669
Total comprehensive income for the year	—	1,669	1,669
At December 2017	—	(22,304)	(22,304)

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
	Notes	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES				
(Loss) Profit for the year		(22,435)	(1,539)	1,669
Adjustments for:				
Share of results of an associate		21,472	—	—
Operating cash flows before movements in working capital		(963)	(1,539)	1,669
Increase in shareholder's loan		23,461	1,417	(1,733)
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES		22,498	(122)	(64)
INVESTING ACTIVITIES				
Investment in an associate		(21,472)	—	—
NET CASH USED IN INVESTING ACTIVITIES		(21,472)	—	—
FINANCING ACTIVITIES				
Incorporation of company		—	—	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		—	—	—
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		1,026	(122)	(64)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		—	1,026	904
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		—	—	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12	1,026	904	840

1. GENERAL INFORMATION

Depot Wealth Limited ("Depot") was incorporated in the British Virgin Islands (the "BVI") on 9 February 2015 as a company with limited liability under the BVI Business Companies Act, 2004 of the British Virgin Islands. The registered office of Depot is Vistra Corporate Services Centre, Wickams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

Depot and its subsidiaries (collectively referred as the "Depot Group") are principally engaged in investment holding while the associate is engaged in software development.

The Financial Information are presented in Renminbi (the "RMB") which is the same as the functional currency of the Depot Group.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The consolidated financial statements for the Relevant Period comprise the Depot Group and the Group's interest in an associate.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Going concern

In preparing the consolidated financial statements, the director of Depot have given careful consideration to the future liquidity of the Depot Group in light of the fact that its current liabilities exceeded its current assets by approximately RMB22,304,000 as at 31 December 2017 (2016: RMB23,973,000; 2015: RMB22,435,000).

In order to improve the Depot Group's financial position, to provide liquidity and cash flows and to sustain the Depot Group as a going concern, subsequent to the end of the reporting periods, Hongzhi CUI, the sole shareholder and also the sole director of Depot, has agreed not to demand repayment of the amount due to it by the Depot Group of approximately RMB23,144,000 as at 31 December 2017 in the next twelve months from the date of approval of these consolidated financial statements. The two shareholders have also agreed to provide continuous financial support to the Depot Group as necessary and after the completion of the Proposed Acquisitions, to enable the Depot Group to meet its financial obligations, as and when they fall due for the foreseeable future.

The director of Depot is of the opinion that, taking into account the above financial support from the Company as described above, the Depot Group will have sufficient working capital to meet its cashflow requirements in the next twelve months. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The Historical Financial Information incorporate the financial statements of Depot and entities controlled by Depot and its subsidiaries. Control is achieved when Depot:

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

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

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

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

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

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Depot Group has consistently applied all new and revised HKFRSs, amendments and interpretation issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2017 throughout the Relevant Period.

As the date of this report, the Depot 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 HKFRSs	Annual Improvements to HKFRSs 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

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

Classification and measurement:

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

Impairment:

- In general, the director of Depot 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 director of Depot, 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information 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.

The Historical Financial Information has been prepared on the historical cost basis except for investment in financial asset at fair value through profit or loss, which is 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 Depot 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 this Historical Financial Information is determined on such a basis except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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 its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transferred at fair value and a valuation technique that unobservable inputs are 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.

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.

Revenue recognition

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

Foreign currencies

In preparing the Historical Financial Information 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 Depot Group's entities are translated from their functional currencies into the presentation currency of Depot (i.e. RMB) 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 Depot Group, will be transferred directly to retained profits.

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 Depot 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 Depot 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 Depot Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Financial instruments

Financial assets and financial liabilities are recognised 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 ("FVTPL")) 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.

Receivables

Receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less impairment losses, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each 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 trade receivables could include the Depot Group's past experience of collecting payments, an increase in the number of delayed payments in the trade receivables past the credit period (ranging from 30 days to 365 days), and observable changes in national or local economic conditions that correlate with default on the receivables.

For loans and receivables, the amount of the impairment loss recognised is 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.

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.

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.

Equity instruments

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

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

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.

Derecognition

The Depot 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 is recognised in profit or loss.

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

5. REVENUE

The Depot Group is principally engaged in investment holding. No revenue was recognized during the Relevant Period.

6. OTHER GAINS AND LOSSES, NET

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Other (losses)/gains, net:			
Net foreign exchange gain	(963)	(1,536)	1,673

7. INCOME TAX EXPENSES

No provision for Hong Kong Profits Tax has been made as Depot did not derive any taxable income during the year (2016: Nil, 2015: Nil).

No provision for deferred taxation has been made as there should be no future tax consequences (2016: Nil, 2015: Nil).

The tax expense for the year can be reconciled to the results per the statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(Loss) Profit before tax	(22,435)	(1,538)	1,669
Notional tax at the domestic income tax rate of 16.5% (2016: 16.5%, 2015: 16.5%)	(3,702)	(254)	275
Tax effect of income not taxable for tax purpose	—	—	(275)
Tax effect of expenses not deductible for tax purpose	3,702	254	—
Income tax expenses for the year	—	—	—

8. PROFIT BEFORE TAX

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax has been arrived at after charging (crediting):			
Auditor's remuneration	—	—	—
Directors' remuneration (note 9)	—	—	—

9. DIRECTORS' EMOLUMENTS

No emolument were paid or are payable to Mr. CUI Hongzhi, the sole director of Depot during the Relevant Period.

10. EMPLOYEES' REMUNERATION

During the Relevant Period, no employees were entitled to any remuneration.

11. DIVIDEND

No dividend was paid or proposed by Depot during the Relevant Period, nor has any dividend been proposed by Depot since 31 December 2017.

12. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by Depot and short-term bank deposits with an original maturity of three months or less.

The bank balances carried interest at market rates which is approximately 0.01% for the Relevant Period.

13. INTERESTS IN AN ASSOCIATE

	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cost of investments in an associate			
— Unlisted investment	21,472	21,472	21,272
Share of post-acquisition results			
At the beginning of the year	—	(21,472)	(21,472)
Share of results of the year	(21,472)	—	—
At the end of the year	(21,472)	(21,472)	(21,472)
Carrying amount	—	—	—

As at 31 December 2017, 31 December 2016 and 31 December 2015, Depot had interests in the following associate:

Name of associate	**Form of business structure**	**Place of incorporation/ establishment/ operations**	**Class of shares held**	**Proportion of registered capital held 2015**	**2016**	**2017**	**Principal activity**
Inspur Tianyuan Communications System Co., Ltd. ("Inspur Tianyuan")	Incorporated	The People's Republic of China	Ordinary	49%	49%	49%	Provision of software development services

Summarised financial information in respect of Ambition's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements.

The associate is accounted for using the equity method in these consolidated financial statements.

Inspur Tianyuan

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Non-current asset	9,466	558	424,660
Current asset	224,730	249,046	281,871
Non-current liabilities	14,845	5,228	47,558
Current liabilities	271,079	270,143	748,820

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	324,717	425,781	561,657
(Loss)/Profit after tax for the year	(43,998)	25,960	36,607

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

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Net assets (liabilities) of Inspur Tianyuan	(51,728)	(25,767)	(89,847)
Proportion of Depot's ownership interest	49%	49%	49%
Share of Depot's interest	(25,347)	(12,627)	(44,025)
Carrying amount of interest in an associate	—	—	—

14. SHAREHOLDERS' LOANS

The loans from shareholders are unsecured, interest free and repayable on demand.

15. SHARE CAPITAL AND RESERVE

	Number of shares	*RMB*
Ordinary shares of USD1 each		
Authorised:		
Balance at 9 February 2015	—	—
Authorise at incorporation	50,000	324,528
At 31 December 2015, 31 December 2016 and 31 December 2017	50,000	324,528
Issued and fully paid:		
Balance at 9 February 2015	—	—
Issue at incorporation	1	7
At 31 December 2015, 31 December 2016 and 31 December 2017	1	7

Depot's statement of changes in equity:

	Share capital *RMB*	**Retained profits** *RMB*	**Total** *RMB*
Balance at 9 February 2015	—	—	—
Issue of shares at incorporation	7	—	7
Total comprehensive income	—	—	—
Balance at 31 December 2015 and 1 January 2016	7	—	7
Total comprehensive income	—	—	—
Balance at 31 December 2016 and 1 January 2017	7	—	7
Total comprehensive income	—	—	—
Balance at 31 December 2017	7	—	7

The nature and purpose of reserves within equity are as follows:

Retained losses

Retained losses are the cumulative net losses of Depot.

16. CAPITAL RISK MANAGEMENT

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

The capital structure of Depot consists of equity attributable to owners of Depot, comprising issued share capital and reserves.

The directors 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 Depot, Depot will balance its overall capital structure through new share issues as well as the issue of new debt.

17. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Bank balances and cash	1,026	904	840
Financial liabilities			
Shareholder's loan	23,461	24,877	23,144

(b) Financial risk management objectives and policies

The Depot Group's major financial instruments include bank balances and cash and shareholder's loan. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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 in a timely and effective manner.

Market risk

Currency risk

The Depot Group's functional currency is Hong Kong Dollars by using the currency of the primary economic environment in which the Group operates. However, the Group's shareholder's loan is denominated in the China Renminbi. Management considers the effect should be minimal as the exchange rates of Hong Kong Dollars against China Renminbi has remained steady though they are not pegged.

Interest rate risk

The Depot Group has no significant interest-bearing assets and liabilities. Cash at bank earns interest at rates based on bank's deposit rates.

Other price risk

The Group is not exposed to significant other price risk.

Credit risk

The Depot Group's principal financial assets is bank deposits. The credit risk on the liquid funds is limited because of the close involvement of management in overseeing the recovery of the assets.

Liquidity risk

The Depot Group is exposed to liquidity risk. As at 31 December 2017 its current liabilities exceeded its current assets by approximately RMB22,304,000 (2016: RMB23,973,000; 2015: RMB22,435,000).

In order to improve the Depot Group's financial position, to provide liquidity and cash flows and to sustain the Depot Group as a going concern, subsequent to the end of the reporting periods, Hongzhi CUI, the sole shareholder and also the sole director of Depot, has agreed not to demand repayment of the amount due to it by the Depot Group of approximately RMB23,144,000 as at 31 December 2017 in the next twelve months from the date of approval of these consolidated financial statements. Hongzhi CUI has also agreed to provide continuous financial support to the Depot Group as necessary to enable the Depot Group to meet its financial obligations, as and when they fall due for the foreseeable future.

18. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, Depot has entered into the following transactions with related parties.

(a) Compensation to key management personnel

The key management personnel are the directors and executives of Depot Company. Details of the remuneration paid to the directors are set out in note 10.

(b) Financing arrangements

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to the sole shareholder	23,461	24,877	23,144

The outstanding balance with the sole shareholder was unsecured, interest free and had no fixed repayment terms.

19. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Depot, Depot or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

20. SUBSEUQENT EVENTS

Appointment of Director

On 30 April 2018, an independent third party individual was appointed by the shareholders of Depot Wealth Limited as a Director of the Company.

Changes in shareholding interests

On 30 April 2018, the sole shareholder Mr. Cui Hong Zhi of Depot Wealth Limited has transferred 1 ordinary share to an independent third party namely Merit Express International Holdings Limited ("Merit Express") at consideration of USD1 and Merit Express has applied 99 ordinary shares at USD1 each in the capital of Depot Wealth Limited. After the transfer and allotment, Merit Express owns 100% shareholding interest in the Company.

MANAGEMENT DISCUSSION AND ANALYSIS ON SELLER I GROUP

Set out below is the management discussion and analysis of Seller I Group for the three years ended 31 December 2017. The following financial information is based on the accountants' report of Seller II Group as set out in Appendix IIB to this circular.

BUSINESS AND FINANCIAL REVIEW

Seller I Group is principally engaged in software development and services in relation to the communications industry and transportation industry, as well as big data services business.

For the three years ended 31 December 2017, we generated the majority of our revenue from software development. Revenue from software development increased from RMB307.40 million in 2015 to RMB495.70 million in 2016 and further to RMB509.24 million in 2017. Sales revenue of IT peripherals and software was RMB90.93 million, RMB64.45 million and RMB52.42 million for the three years ended 31 December 2017.

Revenue

Over the past three years, Seller I Group has recorded a growth in software revenue by committing to business transformation, reducing the undertaking of hardware integration contracts with relatively lower gross profit margin and focusing on the development of software and big data service. Overall gross profit margin of Seller I Group increased from 39% in 2015 to 55% in 2017, which was mainly benefitted from the integration of research and development resources and improvements in standardization of software product.

Seller I Group recorded revenue of approximately RMB398.3 million, RMB560.2 million and RMB561.7 million for the three years ended 31 December 2017, respectively. The 40.6% increase in revenue of Seller I Group in 2016 was mainly attributable to the consolidation of its revenue for the second half of 2015 due to the acquisition of Beijing Tianyuan Networks (北京天元網絡). Revenue remained stable in 2017 as compared to 2016. The profit remained stable in 2017, which was mainly due to the fact that revenue generated from hardware integration contracts further dropped, representing a year-on-year decrease of 19%, while the software revenue increased by 2.73% year-on-year.

Gross profit

Gross profit of Seller I Group demonstrated a steady increase from 2015 to 2017. Seller I Group recorded gross profit of approximately RMB155.4 million, RMB293.4 million and RMB310.5 million for the three years ended 31 December 2017, respectively, which translates to the gross profit margin of approximately 39.0%, 52.4% and 55.3% from 2015 to 2017, respectively. The increase in gross profit margin in 2016 and 2017 as compared with 2015 was mainly due to the decreased proportion of hardware integration contracts with relatively lower gross profit margin year by year, and the increase in software profit with higher gross profit margin as a percentage of total revenue.

Selling and distribution expenses

Seller I Group incurred selling and distribution expenses of approximately RMB113.5 million, RMB152.8 million and RMB170.5 million for the three years ended 31 December 2017, respectively. The increase in selling and distribution expenses of 34.6% in 2016 was mainly due to enlarged income scale and the fact that only the expense of Beijing Tianyuan for the second half of 2015 was consolidated in the year, and the increase of 11.6% in 2017 was mainly due to enlarged income scale of Seller I Group.

Administrative expenses

Seller I Group incurred administrative expenses of approximately RMB146.5 million, RMB140.8 million and RMB117.2 million for the three years ended 31 December 2017, respectively.

Administrative expense remained relatively stable in 2015 and 2016. The administrative expenses decreased by approximately 16.8% in 2017. In 2017, the administrative expense was decreased year-on-year mainly due to the fact that Seller I Group relocated some back-up research and development departments to the site of customers, so as to enhance delivery efficiency and shorten the cycle for customization of products. Despite of the decreased administrative expenses, the overall operating and administrative expenses was generally flat with that of 2016.

Other income

Seller I Group recorded other income of approximately RMB49.3 million, RMB38.0 million and RMB31.3 million for the years ended 31 December 2017. Other income mainly includes interest income, refund of value-added tax, government grants and rental income from properties. The decrease in other income during the three years ended 31 December 2017 was mainly due to the decreased government grants in 2017 as compared with that of 2016.

Finance costs

Seller I Group incurred finance costs of approximately RMB2.1 million, RMB2.5 million and RMB4.6 million for the three years ended 31 December 2017, respectively. Finance costs mainly include expenses of interest on bank borrowings and interest on related-parties loans.

Finance costs remained relatively stable in 2015 and 2016. The finance costs increased by approximately 83.3% in 2017 were mainly due to the increase in interest on loans from related parties arising from the reorganization of Beijing Tianyuan Networks in 2017.

Income tax expense

Seller I Group incurred the income tax expense of approximately RMB3.7 million, RMB16.1 million and RMB4.9 million for the three years ended 31 December 2017 respectively. The significant increase in income tax expense in 2016 was mainly due to the unrealized profit for the year ended 31 December 2016 for the PRC subsidiaries. The decrease in income tax expenses in 2017 was mainly attributable to the unrealized profit has been significantly decreased for the year ended 31 December 2017 for the PRC subsidiaries.

Profit/loss for the year

Seller I Group recorded a loss of RMB61.2 million, a profit of RMB19.3 million and a profit of RMB44.5 million for the three years ended 31 December 2017, respectively.

As a result of the foregoing, our profit increased in 2016 and in 2017, and our net profit margin increased from 3.44% in 2016 to 7.93% in 2017. In 2015, Seller I Group recorded a significant operating loss, which was mainly due to the fact that Seller I Group advanced business transformation and management structure adjustment, placed importance on the software and big data service with higher gross profit margin and gradually scaled down the hardware integration business. This strategy has achieved expected results in 2016 and 2017, as demonstrated by the enhanced revenue and gross profit margin of software business. Thus, Seller I Group was able to maintain stable growth in earnings.

LIQUIDITY, FINANCIAL RESOURCE, FUNDING AND TREASURY POLICY AND CAPITAL STRUCTURE

Seller I Group uses funding provided by its shareholders, working capital and loans (both bank loans and shareholders' loans) for is business operations. Seller I Group's purchases and sales are mainly denominated in RMB. Seller I Group has not entered into hedging instruments in respect of foreign exchange risks. During the three years ended 31 December 2017, Seller I Group generally financed its operations through borrowings. Seller I Group's borrowings comprised bank loans denominated in RMB and loans from Inspur Group's subsidiaries. Short-term bank borrowings, which shall be repayable within one year was nil as at 31 December 2015 and increased to RMB20 million as at 31 December 2016 and stayed at the same level as at 31 December 2017. The bank loans bore interest at the China benchmark interest rate for one-year lending plus 16% mark-up by the bank, guaranteed by a third party. Loans amounting RMB467.2 million were obtained from Inspur Group's subsidiaries during the year ended 31 December 2017, which bore interest rate at 4.35 per annum, for the purpose of acquiring equity interests in Yuanshuo Technology, Tianyuan Weiye and Tianyuan Network.

Seller I Group had amounts due from related parties of approximately RMB39.1 million, RMB75.2 million and nil as at 31 December 2015, 2016 and 2017. Amount due from related party consisted mainly of the current account of non-trade nature, which has been fully collected by the end of 2017.

Seller I Group had amounts due to related parties of approximately RMB20.0 million, RMB67.2 million and RMB467.2 million as at 31 December 2015, 2016 and 2017. Amount due to related party consisted mainly of related-party loans arising from the reorganization of Beijing Tianyuan.

Seller I Group had bank balances and cash of approximately RMB74.1 million, RMB52.4 million and RMB33.5 million as at 31 December 2015, 2016 and 2017. The decrease in bank balances and cash by 29.3% as at 31 December 2016 was mainly due to the repayment of current accounts with related parties amounting to approximately RMB46.0 million in 2016. It further decreased by 36.0% as at 31 December 2017, which was primarily due to distribution of dividend amounting to approximately RMB36.9 million in 2017.

Seller I Group had trade and bills receivables of approximately RMB201.3 million, RMB240.2 million and RMB212.1 million as at 31 December 2015, 2016 and 2017. The increase in trade and bills receivables by 19.4% as at 31 December 2016 was mainly due to the fact that income scale of Seller I Group was enlarged, resulting in the increase in outstanding trade receivables at the end of the period. The decrease in trade and bills receivables by 11.7% as at 31 December 2017 was primarily due to the fact that the Company intensified the collection of receivables from customers, resulting in a decrease of approximately RMB28.0 million in the balance of closing receivables.

Seller I Group had trade and bills payables of approximately RMB82.2 million, RMB80.9 million and RMB69.8 million as at 31 December 2015, 2016 and 2017. The decrease in trade and bills payables by 1.5% as at 31 December 2016 was mainly due to the scale down of the Seller I Group's hardware integration business. It further decreased by 13.8% as at 31 December 2017, which was primarily due to the fact that Seller I Group further scaled down its hardware integration business.

As at 31 December 2015, 2016 and 2017, bank borrowing was nil, RMB20.0 million and RMB20.0 million, respectively. The interest rate for the bank borrowing was at the China benchmark interest rate for one-year lending plus 16% mark-up by the bank.

CAPITAL STRUCTURE

Popular Vision Limited was incorporated on 2 January 2015. On 2 January 2015, one share was allotted and issued by Popular Vision Limited to Inspur Overseas. As a result, the entire issued share capital of Popular Vision Limited was wholly owned by Inspur Overseas. For the years ended 31 December 2015 and 2016, Seller I Group did not declare or pay any dividend while Seller I Group paid a total amount of RMB18.8 million dividend in 2017 to controlling shareholders.

GEARING RATIO AND CURRENT RATIO

The gearing ratio (being net debt divided by total capital plus net debt) as at 31 December 2015, 2016 and 2017 were approximately 51.19%, 57.09% and 120.75%. The increase in gearing ratio as at 31 December 2016 was mainly due to the scale up of our business and the increase in current accounts payable to related parties. The increase in gearing ratio as at 31 December 2017 was mainly due to the shareholding organization of Beijing Tianyuan Networks, leading to an increase of RMB410 million in loans payable to related parties. The current ratio (being current assets over current liabilities) as at 31 December 2015, 2016 and 2017 were approximately 98.1%, 92.7% and 35.1%. The decrease in current ratio as at 31 December 2016 was mainly due to the scale up of our business and the increase in current accounts payable to related parties. The decrease in current ratio as at 31 December 2017 was mainly due to the shareholding organization of Beijing Tianyuan Networks, leading to an increase of RMB410 million in loans payable to related parties.

CAPITAL EXPENDITURE

For the years ended 31 December 2015, 2016 and 2017, capital expenditure of approximately RMB5.97 million, RMB2.27 million and RMB4.97 million were incurred, respectively, representing the additions to property, plant and equipment.

FOREIGN CURRENCY RISK

Other than Popular Vision Limited and its subsidiaries established in the Hong Kong and overseas of which functional currency is Hong Kong dollar ("HK$") and United States dollars ("USD") respectively, the functional currency of the other subsidiaries is RMB. Seller I Group has minimal exposure to foreign currency risk as most of its trade and other receivables, amounts due from related companies, financial assets at fair value through profit or loss, bank balances and cash, trade and other payables, bills payable, bank borrowings, amounts due to related companies, revenue, operating costs and expenses are denominated in RMB. Seller I Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Seller I Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

Seller I Group did not have any significant contingent liabilities for the three years ended 31 December 2017.

PLEDGE OF ASSETS

As at 31 December 2015, 2016 and 2017, no assets were pledged.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSALS

On 25 April 2017, Inspur Tianyuan, which is a 51% indirectly owned subsidiary of Seller I Group, acquired 100% equity interest in both Yuanshuo Technology and Tianyuan Weiye from Inspur Software Group at a consideration of RMB 246,075,000 and from an Independent Third Party at a consideration of RMB 236,425,000 respectively. On the same date Inspur Tianyuan acquired 2.79%, 2.53% and 0.14% equity interest in Tianyuan Network from Inspur Software Group and several independent Third Parties respectively at total consideration of RMB 27,846,000. After the acquisition and as of 31 December 2017, Seller I Group has 100% equity interest in both Yuanshuo Technology and Tianyuan Weiye and 5.46% equity interest in Tianyuan Network.

Save as disclosed above, Seller I Group did not have any significant investment or material acquisition and disposals for each of the three financial years ended 31 December 2015, 2016 and 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, 2016 and 2017, the total number of employees of Seller I Group were 1464, 1432 and 1114, respectively. The employee benefit expense for the three financial years ended 31 December 2015, 2016 and 2017 were approximately RMB102.45 million, RMB144.54 million and RMB141.80 million. The decrease in the number of employees was mainly due to the fact that Seller I Group downsized its work force to enhance the effectiveness of its operation during the process of business transformation.

FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS AND NEW BUSINESS

As at the Last Practicable Date, Seller I Group had no future plan for material investment and capital assets and new business.

Seller II Group is principally engaged in investment holding which is holding an associate company, Inspur Tianyuan. The associate company is engaged in software development business. Seller II Group has recorded an impairment loss in its interest in the associate company during the Relevant Periods. The situation is expected to be reversed and the interest in the associate company is expected to be recovered by the management in the coming financial years as the associate company was making profit with positive operating cash inflow starting from the year ended 31 December 2017.

1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(A) INTRODUCTION

The unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of the Enlarged Group has been prepared to illustrate the effect of the acquisition of 100% of the issued share capital of Popular Vision Limited ("Popular") and the effect of the acquisition of 51% of the issued share capital of Depot Wealth Limited ("Depot") (the "Acquisition"), assuming the Acquisition had been completed as at 31 December 2017 ("Completion"), might have affected the financial position of the Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2017 as extracted from the annual report of the Group for the year ended 31 December 2017, the audited consolidated statement of financial position of Popular and Depot as at 31 December 2017 as extracted from the Accountants' Report set out in Appendix IIA and IIB respectively, of this Circular after making certain pro forma adjustments resulting from the Acquisition. The Group also confirm with its auditors that they will audit and opine on the consolidated financial statements of the Group in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2017 or at any future date. The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this Circular.

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group	The Target Group A	The Target Group B	Pro forma adjustments	Enlarged Group
	Note 1	Note 2	Note 2	Note 3,4,5,6	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	323,331	465,995	—		789,326
Investment properties	567,920	—	—		567,920
Intangible assets	—	3,416	—		3,416
Prepaid lease payment	34,017	—	—		34,017
Deferred tax assets	—	3,121	—		3,121
Goodwill	—	37,482	—		37,482
Available-for-sale investment	21,582	—	—		21,582
Interest in an associate	150,116	—	—		150,116
Interest in a joint venture	145,558	—	—		145,558
	1,242,524	510,014	—		1,752,538
Current assets					
Inventories	12,586	—	—		12,586
Trade and bill receivables	159,209	254,763	—		413,972
Prepaid lease payments	880	—	—		880
Prepayments, deposits and other receivables	73,720	43,458	—		117,178
Amounts due from customers for contract work	86,283	—	—		86,283
Financial asset at fair value through profit or loss	—	36	—		36
Amount due from ultimate holding company	1,429	—	—		1,429
Amounts due from fellow subsidiaries	115,106	—	—		115,106
Profits tax refundable/(payables)	—	2,506	—		2,506
Pledged bank deposits	14,126	—	—		14,126
Bank balances and cash	1,350,777	40,245	1,009	(655,798)	736,233
	1,814,116	341,008	1,009		1,500,335

	The Group Note 1	The Target Group A Note 2	The Target Group B Note 2	Pro forma adjustments Note 3,4,5,6	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade and bill payables	114,589	83,805	—		198,394
Other payables, deposits received and accrued expenses	439,642	140,326	—		579,968
Amounts due to customers for contract work	242,498	161,191	—		403,689
Bank loans	—	24,020	—		24,020
Amounts due to related companies	—	561,126	27,796	(561,103)	27,819
Amounts due to ultimate holding company	2,952	—	—		2,952
Amount due to fellow subsidiaries	27,349	—	—		27,349
Deferred income - government grants	70,280	—	—		70,280
Taxation payable	20,174	—	—		20,174
	917,484	970,468	27,796		1,354,645
Net current assets (liabilities)	896,632	(629,460)	(26,787)		145,690
Total assets less current liabilities	2,139,156	(119,446)	(26,787)		1,898,228
Non-current liabilities			—		
Deferred income - government grant	5,699	7,748	—		13,447
Deferred tax liabilities	52,171	49,369			101,540
	57,870	57,117	—		114,987
Net assets	2,081,286	(176,563)	(26,787)		1,783,241

	The Group	The Target Group A	The Target Group B	Pro forma adjustments	Enlarged Group
	Note 1	Note 2	Note 2	Note 3,4,5,6	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Equity attributable to owners of the Company					
Share capital	9,527	—	—	1,862	11,389
Reserves	2,067,510	(123,690)	(26,787)	(110,396)	1,806,637
	2,077,037	(123,690)	(26,787)		1,818,026
Non-controlling interests	4,249	(52,873)	—	13,839	(34,785)
	2,081,286	(176,563)	(26,787)		1,783,241

Notes to the Unaudited Pro Forma Financial Information

1. The assets and liabilities of the Group are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2017 as set out in the published annual report of the Company for the year ended 31 December 2017.

2. The balances are extracted from the accountants' report of the Target Group as set out in Appendices IIA and IIB to this circular and translated from Renminbi ("RMB") to Hong Kong dollars at the exchange rate of HK$1 to RMB0.8326, which is the prevailing exchange rate as at 31 December 2017.

3. As the Group and Target Group are controlled by Inspur Group Co., Limited before and after the proposed Acquisition, the Group will account for the Acquisition as a business combination under common control using the Principles of merger accounting in accordance with the Accounting Guideline 5 Merger Accounting for Common Control Combination ("AG 5") issued by HKICPA.

   Under the principles of merger accounting, the consolidated financial statements incorporate the financial statement items of the acquired entities or businesses in which the common control combination occurs from the date when the acquired entities or businesses first come under the control of the controlling party. The net assets of the acquired entities or businesses are consolidated using the existing book values from the controlling party's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as at a result of the common control combination. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and amounts at which the assets and liabilities are recorded will be recognised directly in equity as party of the merger reserve. Acquisition costs are expensed as incurred.

4. Pursuant to the Acquisition Agreement I, the total consideration includes:

(a) approximately HK$370,471,000 shall be satisfied by the Company by allotting and issuing 139,800,400 Shares to Seller I at the Issue Price of HK$2.65 per Consideration Share; and

(b) the assumption of the repayment of the Shareholders' Loan with principal amount of HK$561,102,000 and accrued interest of HK$4,068,000 (outstanding principal amount with original currency of RMB467,200,000 with together with interest as at completion of the Share Purchase Agreement I which is expected to be approximately RMB3,387,200 under its original currency), and the exchange rate shall be 1 HKD to 0.8326 RMB.

Pursuant to the Acquisition Agreement II, the total consideration includes:

(a) HK$90,626,942 shall be paid in cash; and

(b) approximately HK$122,917,600 shall be satisfied by the Company by allotting and issuing 46,384,000 Shares to Seller II at the Issue Price of HK$2.65 per Consideration Share.

An analysis of the total estimated cost of the Acquisition I and II had been taken place on 31 December 2017 is set out as follows:

	Fair value at 31 December 2017
	HK$'000
Cash	90,627
Consideration shares	398,435
Assumption of repayment of Shareholder loan	565,171
	1,054,233

5. The adjustment represents the effect that as if the Proposed Acquisition had been completed on 31 December 2017, the non-controlling interest amounting to HK$13,839,000 is transferred to equity attributable to owners of the Company. The difference between the consideration and the non-controlling interest is adjusted in equity attributable to owners of the Company.

CHENG & CHENG LIMITED
Certified Public Accountants 鄭鄭會計師事務所有限公司

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Inspur International Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Inspur International Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 31 December 2017 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages 167 to 170 of the Company's circular dated 25 June 2018, in connection with the proposed Acquisition of 51% equity interests of the Target Companies Popular Vision Limited and Depot Wealth Limited (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages 167 to 170.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2017 as if the Transaction had taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the audited consolidated balance sheets of the Group as at 31 December 2017 extracted from the 2017 annual report of the Group.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) The Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

(b) Such basis is consistent with the accounting policies of the Group; and

(c) The adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

CHENG & CHENG LIMITED
Certified Public Accountants
Hong Kong
25 June 2018

Date: 25 June 2018

The Board of Directors
Inspur International Limited
Flat B & C, 30/F, Tower A, Billion Centre,
1 Wang Kwong Road, Kowloon Bay,
Hong Kong

Dear Sir/Madam,

Re: Valuation of 100% Equity Interest of Business Operation in Inspur Tianyuan Communications System Co., Ltd.

In accordance with the instruction of **Inspur International Limited** (the "**Company**") we have undertaken a valuation task to determine the fair value of the 100% equity interest of business operation in Inspur Tianyuan Communications System Co., Ltd. (the "**OpCo Group**") as at 31 March 2018 (the "**Valuation Date**").

This report outlines the factors considered, valuation methodology, basis and assumptions employed in formulating our opinion and our conclusion of value.

Ascent Partners Valuation Service Limited ("**Ascent Partners**") is an independent firm providing full range of valuation and advisory services. This report is prepared independently in accordance with the International Valuation Standards. Neither Ascent Partners nor any authors of this report hold any interest in the Company, the OpCo Group or their related parties. The fee for providing this report is based on Ascent Partners' normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in this report.

1. Purpose of Valuation

The purpose of this valuation is to express an independent opinion on the fair value of the OpCo Group as at the Valuation Date. This report outlines our latest findings and valuation conclusion, and is prepared solely for the senior management of the Company for public disclosure purpose.

2. Scope of Work

In conducting this valuation exercise, we have:

- Co-ordinated with the Company representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the OpCo Group, including the legal documents, licenses, financial statements, projections, etc. made available to us;

- Discussed with the senior management of the OpCo Group (the "**Management**") and the Company to understand the history, business model, operations, customer base, business development plan and profit forecast, etc. of the business enterprises for valuation purpose;

- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;

- Investigated into the information of the OpCo Group made available to us and considered the basis and assumptions of our conclusion of value;

- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of the OpCo Group; and

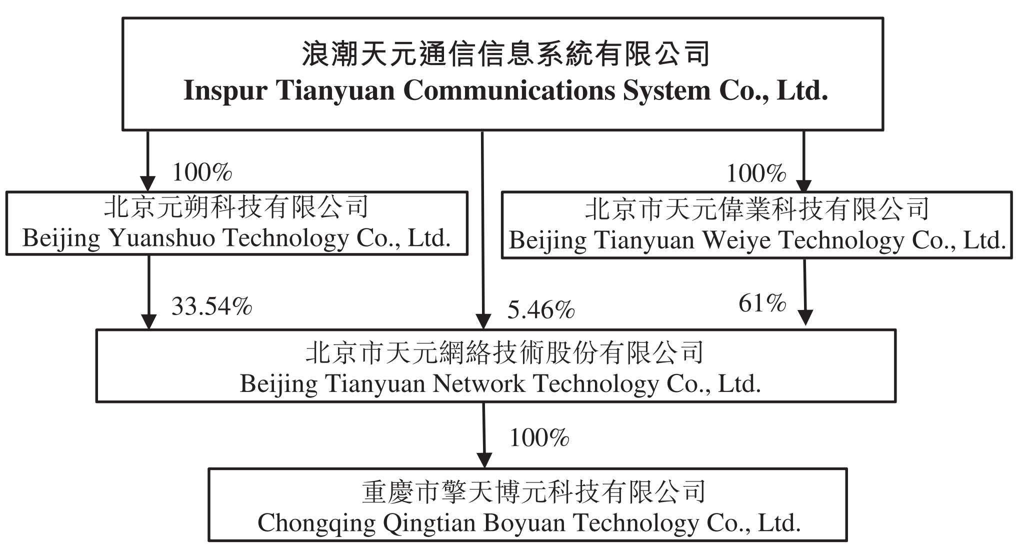
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the OpCo Group and its authorized representatives.

3. Background of the OpCo Group

The OpCo Group, incorporated in China, principally engages in providing software solutions and services for telecommunication, transportation and energy industry sectors, especially for the major telecommunication carriers in China. With its research and development centre located in Beijing and Ji'nan, the enterprise software business of the OpCo Group has experienced remarkable growth over the years. The related products and services provided include but not limited to applications on desktop and mobile platform, data management and analytics service, workflow improvement solution, and operation and maintenance system.

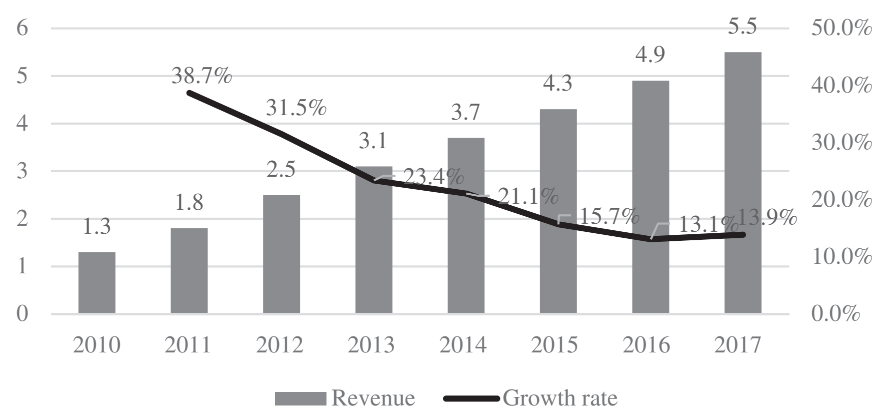
The organisation chart of the OpCo Group as at the Valuation Date is listed as follows:



4. Industry Overview

The Chinese software industry has been experiencing enormous growth through the years. The annual revenue of the industry grew from RMB1.3 trillion in 2010 to RMB5.5 trillion in 2017, a Compounded Annual Growth rate ("**CAGR**") of 23%. The trend is expected to continue over the next decade due to the stress of the Chinese government on the strategic importance of developing the domestic software industry. To continue the stimulation effort to the industry, the government has intensified its direct support to the software industry by setting up software parks and industry bases to encourage investment and research, as well as offering office space and tax subsidies to start-up companies.

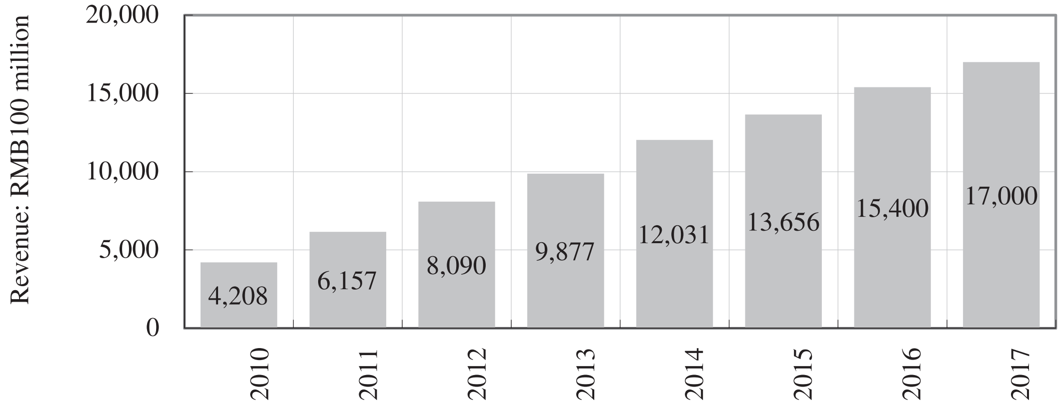
China's Software Industry Revenue and Growth Rate



Source: Ministry of Industry and information Technology of the PRC

The rising need for modern enterprise software with advanced features and improved functionality, especially for the Enterprise Resource Planning ("**ERP**") software, has been an important driver in the contribution of the growth of software industry in China. According to the Ministry of Industry and Information Technology ("**MIIT**"), the penetration rate of ERP software in Chinese enterprises was 78.3% as of 2016. Enterprise software vendors observed significant growth potential in China due to high domestic demand, the higher maturity level of users and, technology enhancements. The revenue of software products in China rose at a CAGR of 22.1% to RMB1.7 trillion in 2017 from RMB420,800 million in 2010.

Revenue of Software Products Growing



Source: SPEEDA

Although large companies have been the major customers for ERP software in China, ERP software is able to reach a wider customer base, particularly small and medium enterprises. This is due to the development of cost-effective, easy-to-implement Software-as-a-Service ("**SaaS**") technology and applications. In addition, inflation and increasing labour wages in China are other driving factors for enterprises to increase ERP software adoption.

Chinese ERP market, especially the cloud computing service, is characterised by the increase in deployment of both SaaS based and Infrastructure as a Service ("**IaaS**") based ERP models. Analysing by segment, SaaS based ERP model has dominated Chinese cloud computing service market. However, as speed of data rises, the scalability of IaaS has gained favour amongst companies seeking for cost saving. IaaS based ERP model has grown rapidly since 2014 and reached RMB8,700 million in 2016, while the figure for SaaS is RMB7,500 million. Benefit from the growth of both IaaS and SaaS ERP model, the cloud computing service market continued expanding in recent years. Gartner estimated that the global overall cloud computing market grew by 25.4% year-on-year ("**yoy**") in 2016 to USD65,500 million. According to the China Academy of Information and Communications Technology, a scientific research institute directly under the MIIT, China's cloud computing market grew by 35.9% year-on-year in 2016 to RMB51,500 million, which was above the overall market growth.

Source: SPEEDA

5. Economic Overview

Overview of China Economy

Exceeding market expectations, Gross Domestic Product ("**GDP**") of China increased by 6.9% yoy in the first half of 2017 and slowed slightly by 6.8% in the third quarter. This suggests that economic growth in 2017 will likely outperform the government's 6.5% target as policymakers support the economy in an important political year when the 19th National Congress of the Communist Party of China is held. The relatively strong economic performance over the past three quarters in 2017 has provided the opportunity for policymakers to tackle structural issues such as overcapacity, speculation in the property market, and rising local government debt.

According to World Bank, economic activity was sustained by domestic consumption and improving external conditions. Consumption, which contributed 4.5% to growth in the three quarters of 2017 relative to the same period in 2016, continues to support domestic rebalancing away from investment. After bottoming out in Q3 2016, growth in average real household income accelerated to 7.5% yoy in Q1 to Q3 2017, exceeding GDP growth and boosting household consumption. Consumer sentiment, as measured by National Bureau of Statistics ("**NBS**")'s Consumer Confidence Index, has improved by more than 15% since December 2016 to 123.9 in October 2017. Monetary and regulatory tightening have weighed on economic activity in construction, real estate, and financial services in latest quarters, but industry and other service sectors have contributed growth.

A deceleration in investment growth has supported gradual economic rebalancing, with the growth contribution of investment fell to 2.3% yoy in the three quarters of 2017, compared with 2.8% in 2016. The fixed asset investment ("**FAI**") growth moderated to 7.5% yoy for the first nine months of 2017 from a peak of 9.2% yoy in Q1 2017, according to the NBS. This is partly driven by government efforts to limit local government off-budget financing of public investment but also by weaker private investment.

The recovery in global trade has been an important driver supporting economic activity in China in 2017, with net exports contributing 0.2% to GDP growth in three consecutive quarters, compared with negative contribution of -0.5% in 2016. Owing to stricter enforcement of capital controls and greater market confidence, capital outflows from China declined to USD47,000 million in the first three quarters of 2017, from USD640,000 million in 2016. In the context of broad US dollar depreciation, the RMB appreciated by 5.0% against the US dollar over January-November 2017, with its trading range against the US dollar contracting since late September.

Deleveraging remains a key macroeconomic policy priority, according to the World Bank's view. Since late 2016, the Central Bank of China has tightened monetary policy through reduced liquidity provision and higher policy rates. Both interbank rates and bond yields have increased in response to the tighter policy stance. For example, government bond yields climbed to their highest level in more than three years, 4.0% on November 23 as market expectations of a stepped-up government effort to slow down the pace of leveraging in the economy rose. The less accommodative monetary policy is complemented by regulatory measures, such as more comprehensive bank risk (including off-balance sheet) monitoring, improved monitoring of fiscal risks, and a stricter implementation of the 2014 budget reform. In response, the pace of credit growth has moderated in 2017, with growth in total credit to the nonfinancial sector declined to 14.1%, compared to an average of 15.9% in 2016.

Economy Outlook

According to BMI Research' view, China's economic growth in the coming decade will be much slower than in the past, as the savings rate declines, the economic liberalisation process slows, and population growth falls. These dynamics will result in real GDP growth averaging 5.8 % over the next decade, as opposed to much faster growth in the previous decade. Private consumption will be a major outperformer, averaging growth of 7.2 % and rising in importance as a share of GDP.

TABLE: LONG-TERM MACROECONOMIC FORECASTS

	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Nominal GDP, USDbn	12,026.4	13,383.8	14,537.6	15,746.9	17,048.9	18,503.4	20,041.1	21,695.7	23,493.3	25,446.6
Real GDP growth, % y-o-y	6.8	6.5	6.2	5.8	5.4	5.4	5.4	5.4	5.4	5.4
Population, mn	1,409.52	1,415.05	1,420.06	1,424.55	1,428.48	1,431.85	1,434.68	1,437.00	1,438.84	1,440.21
GDP per capita, USD	8,532	9,458	10,237	11,053	11,934	12,922	13,969	15,097	16,328	17,668
Consumer price inflation, % y-o-y, ave	1.6	1.8	2.2	2.3	2.4	2.5	2.7	2.7	2.7	2.7
Current account balance, % of GDP	1.2	0.9	0.8	0.6	0.4	0.3	0.1	0.0	-0.1	-0.2
Exchange rate CNY/USD, ave	6.78	6.60	6.59	6.59	6.57	6.55	6.55	6.55	6.55	6.55

f = forecast. Source: National sources, BMI

Source: BMI research, World Bank

6. Basis of Valuation

Our valuation is carried out on a fair value basis. Hong Kong Financial Reporting Standard (HKFRS) 13 *Fair Value Measurement* defines fair value as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date*".

7. Basis of Opinion

We have conducted our valuation with reference to International Valuation Standards issued by International Valuation Standards Council (IVSC).[1] The valuation procedure includes review of the financial and economic conditions of the subject business, an assessment of key assumptions, estimates, and representations made by the OpCo Group. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, independent, and unbiased.

[1] The IVSC has been in existence for more than 25 years. Its origins were in the need identified by a number of professional bodies from around the world for uniformity in the valuation approaches used in real estate markets. Over the past decade it has evolved and expanded and now produces standards for many types of assets, including plant and equipment, intangible assets and businesses. The International Valuation Standards are already recognised and accepted by a wide range of organisations including the UK Financial Services Authority, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India and the European Public Real Estate Association amongst others. IVSC has also worked in liaison with the International Accounting Standards Board (IASB) in producing guidance on valuations required under IFRS, an increasingly important need as IFRS is adopted in more states.

The following factors also form a considerable part of our basis of opinion:

- Assumptions on the market and on the subject business that are considered to be fair and reasonable;
- Historical financial performance that shows a consistent trend of the operation of the subject business;
- Consideration and analysis on the micro- and macro-economic factors; and
- Analytical review of the subject business.

We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that our valuation provides a reasonable basis for our opinion.

8. Sources of Information

In conducting our valuation of the subject asset, we have considered, reviewed and relied upon the following key information provided by the instructing party and from the public:

- Overview of the business nature of the OpCo Group;
- Historical financial reports of the OpCo Group;
- Publications and research reports regarding the related industry; and
- Bloomberg, Hong Kong Stock Exchange and other reliable sources of market data.

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this valuation. In addition, we have relied upon the statements, information, opinion and representations provided to us by the Company.

We also conducted research using various sources including government statistical releases and other publications to verify the reasonableness and fairness of information provided and we believe that the information is reasonable and reliable.

Our opinion is based upon existing economic, market, financial and other conditions which can be evaluated on the date of this report and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are beyond our control or the control of any party involved in this valuation exercise.

9. Valuation Approach and Methodology

In carrying out this valuation exercise, we have considered the following approaches and methodologies:

Cost Approach — The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history. This approach is the most practical way to produce a reliable valuation without a known established market.

Unlike market and income approaches which incorporate either market sentiments or future earnings capacity of an asset as a function to determine its current value, the cost approach considers the fundamental cost that takes to form the asset.

Market Approach — In this approach, the value of an asset is appraised with reference to market prices of similar assets. A general way of estimating a value indication of an asset, the market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect differences in terms, conditions, etc. relative to the market comparative. Assets for which there is an established market may be appraised by this approach.

There are two methods to implement the market approach:

The Guideline Transaction Method — In the first market approach, transaction data for private and public companies is used to compute the value. In this method, a database of buy and sale records of enterprises with financial fundamentals on companies similar to the subject company is used as basis for transaction prices.

The Guideline Public Company Method — In the second market approach, the valuation multiples derived from the market prices and financial data of listed companies in a similar business is used to appraise the subject company.

Income Approach — In the income approach, the value of an asset is the present worth of the expected future economic benefits of ownership. The value of the asset to be valued is developed through the application of the discounted cash flow method to devolve the values of expected future income generated by the asset into a present value. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to its underlying business operation.

Approach Adopted — In this valuation exercise, we believed that the Market Approach would be appropriate and reasonable in the appraisal for the fair value of the OpCo Group. The fair value of the OpCo Group has been developed through the Guideline Public Company Method. Since there are sufficient public companies in a similar business and with a similar business model as those of the company being valued with shares being traded freely and actively on the markets, their market values are good indicators of the industry. Hence, this method is adopted in this valuation.

10. Assumptions and Notes to Valuation

The following assumptions considered, having significant sensitivity effects in this valuation, have been evaluated and validated in arriving at our assessed values.

General Assumptions

a) We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the OpCo Group.

b) We have not investigated any financial data to determine the earning capacity of the operation in which the assets are used, and we assumed that the prospective earnings would provide a reasonable return on the fair market value of the assets.

c) We have not visited the premises where the OpCo Group's business operates. We have relied on the assistance of and information provided by the Company and the OpCo Group but has not verified the existence of the assets concerned.

d) As part of our analysis, we have reviewed the information related to this valuation, which is made available to us. We have no reason to doubt the accuracy and fairness of such information on which we have relied to a considerable extent in arriving at our opinion of value.

Other Assumptions and Notes

e) A discount for lack of marketability ("**DLOM**") of 16.11% is applied to account for the lack of marketability of the OpCo Group due to the OpCo Group is a closely held company which is not marketable, according to "Determining Discounts for Lack of Marketability: A Companion Guide to The FMV Restricted Stock Study" published by FMV Opinions, Inc.

f) A control premium of 30.00% is applied to account for the Company acquiring 100% controlling interest of the OpCo Group, according to "Value of Corporate Control: Some International Evidence" by Paul Hanouna, Atulya Sarin & Alan C. Shapiro.

11. Analysis and Valuation

In this valuation task, following ratios have been considered:

- Price-to-Revenue
- Price-to-Earnings
- Price-to-Book Value

The valuation multiples considered inappropriate in this valuation are:

The Price-to-Revenue ratio is considered not appropriate since revenue does not take into account the profitability of a company, which affects its value.

Price-to-Book ratio is considered not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any market value added (as reflected by a price to book ratio of larger than 1), should have its own competencies and advantages. These intangible company-specific competencies and advantages are not captured in the price-to-book ratio and so it is not a good measurement of the market value of a company. As per Pablo Fernandez, PricewaterhouseCoopers Professor of Corporate Finance, IESE Business School, book value bears little relationship to market value, only if the company adds no value.

The valuation multiple considered appropriate and adopted in this valuation is:

Price-to-earnings ratio — This is one of the most commonly employed valuation multiples. It relates the market value of a company's equity to its normalized earnings, an important driver of shareholder's value. This multiple is derived by dividing the market capitalization of the underlying company as of the Valuation Date to its Trailing Twelve Months (**"TTM"**) historical earnings as at the Valuation Date.

The P/E multiples, along with the market capitalisation of the following guideline public companies as at the Valuation Date, are listed in the below table:

Guideline Public Company	**P/E**	**Market Cap (USD, Million)**
1588 HK Equity	10.95	413.05
268 HK Equity	57.05	2,971.93
002063 CH Equity	39.72	1,099.83
300047 CH Equity	37.53	1,019.20
300229 CH Equity	44.47	1,168.39
300365 CH Equity	43.53	1,414.72
300377 CH Equity	60.46	2,108.15
300468 CH Equity	48.88	698.58
300682 CH Equity	70.51	1,732.71
300687 CH Equity	41.50	804.17
600446 CH Equity	104.09	2,231.16
600570 CH Equity	62.54	5,885.36
Average P/E Multiple	**51.77**	

Details and the selection process and criteria of these guideline public companies can be found in Appendix II.

Adjusted Valuation Multiple for Size

Guideline public companies are often of significantly different in size as compared to the OpCo Group, leading to different risk premiums with respect to company size. A guideline public company with lower risk premium of size (i.e. larger size) than the OpCo Group generally implied lower inherent risk in terms of business operation and financial performance, resulting in higher valuation multiple that derives into higher value. Similarly, the OpCo Group with higher risk premium of size (i.e. smaller size) implied higher business risk, resulting in lower valuation multiple. Therefore, the Price-to-Earnings ratio is adjusted to account the difference in size effect between the guideline public companies and the OpCo Group by using the following formula suggested by Nina Milenković from KPMG:

$$M_{adj} = \frac{1}{\frac{1}{M_{or}} + (SRP_S - SRP_B)}$$

where:

- M_{adj} is the adjusted Price-to-Earnings multiple for size.
- M_{or} is the original Price-to-Earnings multiple of the guideline public companies.
- SRP_S is the Specific Risk Premium and the Company Specific Risk Premium of the OpCo Group.
- SRP_B is the Specific Risk Premium of the guideline public companies.

Source: Market Multiples Adjustments for Differences in Risk Profile — An Airline Company Example

As suggested by Duff & Phelps Valuation Handbook 2017, a small company risk premium of 5.59% is applied to the OpCo Group, and a range between 0.89% and 2.68% is applied to the guideline public companies according to their respective sizes (i.e. market capitalisation). As a result, the average of the adjusted Price-to-Earnings multiples of 16.47 listed in the following table is adopted to derive the fair value of equity interest of business operation in the OpCo Group.

Guideline Public Company	**Size Premium**	**Adjusted P/E**
1588 HK Equity	2.68%	8.30
268 HK Equity	1.51%	17.14
002063 CH Equity	1.72%	15.66
300047 CH Equity	2.08%	16.20
300229 CH Equity	1.72%	16.34
300365 CH Equity	1.72%	16.21
300377 CH Equity	1.66%	17.91
300468 CH Equity	2.08%	18.00
300682 CH Equity	1.66%	18.70
300687 CH Equity	2.08%	16.89
600446 CH Equity	1.66%	20.45
600570 CH Equity	0.89%	15.88
Average Adjusted P/E Multiple		**16.47**

Adopting the average valuation multiple is a generally accepted valuation practice. The average adjusted Price-to-Earnings multiple of guideline public companies is then applied to the TTM earnings of business operation of the OpCo Group as at the Valuation Date to derive the value of its 100% equity interest of business operation. As a result, the average adjusted Price-to-Earnings multiple is 16.47 and the unaudited TTM earnings of business operation of the OpCo Group as at the Valuation Date is RMB68,300,000.

As the OpCo Group is a private firm and its shares lack marketability, i.e. they are non-trading and non-marketable, compared to the shares of adopted guideline public companies, an adjustment for the lack of marketability of the equity interest in the OpCo Group is adopted by the means of a DLOM of 16.11%. The adopted DLOM value is referenced from "Determining Discounts for Lack of Marketability: A Companion Guide to The FMV Restricted Stock Study" published by FMV Opinions, Inc.

In addition, the valuation considers that there is a controlling equity interest in the OpCo Group. Therefore, this factor of control must be accounted for by applying a control premium of 30.00%. The adopted value for the control premium is suggested by the following academic paper, "Value of Corporate Control: Some International Evidence" by Paul Hanouna, Atulya Sarin, and Alan C. Shapiro.

Based on the latest management account, the above calculation of adjustment is tabulated as follows:

Size-adjusted PEM:	16.47x
TTM earnings of business operation of the OpCo Group:	RMB68,300,000
100% equity interest of business operation in the OpCo Group:	RMB1,125,000,000
Less: 16.11% discount for lack of marketability of the OpCo Group	
Add: 30% premium for controlling interest of the OpCo Group	
Adjusted 100% equity interest of business operation in the OpCo Group:	RMB1,227,000,000

12. Valuation Comments

As part of our analysis, we have reviewed the financial and business information, such as project documents and other pertinent data concerning the OpCo Group, provided to us by the OpCo Group and the Company. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries, and have obtained such further information as is considered necessary for the purpose of this valuation.

The conclusion of value is based on generally accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are regarded by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the OpCo Group, the Company, and Ascent Partners.

13. Risk Factors

a) General Economic, Political, and Social Considerations

Due to the uncertainties in economic situation, there is no guarantee that the expected financial performance will materialize. Any changes in global political, economic and social conditions, laws, regulations and policies may have significant impacts on the projections of the future income of the OpCo Group. None of these changes can be foreseen with certainty.

b) Inflation

The concurrent loosening of monetary policies by the central banks in many developed and developing countries pose a significant risk of inflation, which will erode the profitability of the OpCo Group.

c) Company Specific Risk

The performance of the OpCo Group may be better or worse than the expectation, and the resulting earnings and cash flows can be very different from our estimates. The possibility of severe operational incidence, whether it is exogenous or endogenous, cannot be precluded.

d) Technological Changes

Any changes in the technological developments and advancements may have significant impacts on the projections of the future income of the OpCo Group. To remain competitive in the industry, the OpCo Group may be required to make substantial capital expenditures to keep up with technological changes.

e) Concentration Risk

The revenue of the OpCo Group is heavily dependent on a single business segment. There is no guarantee that this business relationship can be maintained and that the products of the OpCo Group will remain popular.

14. Opinion of Value

Based on the result of our investigations and analyses outlined in this report, we are of the opinion that the fair value of the 100% equity interest of business operation in the OpCo Group as at the Valuation Date, free from any encumbrances, is **RMB1,227,000,000 (RENMINBI ONE BILLION, TWO HUNDRED AND TWENTY-SEVEN MILLION ONLY)**.

Yours faithfully,

For and on behalf of
Ascent Partners Valuation Service Limited

William Yuen	**Paul Wu**
Director	*Principal*
CFA, FRM	*MSc, CMA (Aust.)*

Notes:

1. Mr. William Yuen is a Chartered Financial Analyst® charterholder and Financial Risk Manager - Certified by the Global Association of Risk Professionals. He also holds a Master degree of Science in Finance. Mr. Yuen has over 10 years' experience in valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries.

2. Mr. Paul Wu is a Certified Management Accountant. He also holds a Master degree of Science. He has extensive experience in corporate advisory and valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries. Prior to working in the financial service industry, Mr. Wu had worked as a senior management in world class technology companies.

3. This valuation report is co-authored by Mr. Wayne Hu.

Appendix I Limiting Conditions

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, client representation and other pertinent data concerning this valuation made available to us. We have assumed the accuracy of, and have relied on the information and client representations provided in arriving at our opinion of value.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper documentation is maintained, and the financial statements and other information give a true and fair view and have been prepared in accordance with the relevant companies' ordinance.

3. Ascent Partners shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation unless prior arrangements have been made.

4. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.

5. Our conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

6. We assume that there are no hidden or unexpected conditions associated with valuation subject that might adversely affect the reported value(s). Further, we assume no responsibility for changes in market conditions after the date of this report.

7. This report is confidential to the client for the specific purpose to which it refers and is for the use only of the party to whom it is addressed. No responsibility is accepted with respect to any third party for the whole or any part of its contents.

Appendix II Guideline Public Companies

Bloomberg is searched exhaustively for all listed companies principally providing enterprise software development and services related business. A short-list of companies resulted from the exhaustive search. The business model and product profiles of the short-listed companies are examined in further screening, with the information obtained from the companies' web-sites and/or other reliable sources, if needed. Companies satisfying the following criteria, pertinent to the business operations of the OpCo Group, are adopted as guideline public companies for the valuation:

a. The companies are principally engaged in enterprise software development and services related business;

b. The principal business of the companies is located in China;

c. Shares of the companies are listed in major stock exchanges and have been actively trading for a reasonable period of time; and

d. Detailed financial and operational information in respect of the companies are available at Bloomberg or other publicly available sources.

By studying the companies' operations in detail, twelve guideline public companies are adopted:

Guideline Public Company 1

Ticker: 1588 HK Equity

Name: Chanjet Information Technology Company Limited

Exchange: Hong Kong

Description: Chanjet Information Technology Company Limited is a provider of enterprise software and services designed for micro and small scale enterprises in The People's Republic of China.

Guideline Public Company 2

Ticker: 268 HK Equity

Name: Kingdee International Software Group Company Limited

Exchange: Hong Kong

Description: Kingdee International Software Group Company Limited, through its subsidiaries, develops and sells enterprise management software, e-commerce application software and middleware software. The company also provides internet-based services and setting up e-commerce platforms for enterprises. In addition, Kingdee provides solution consulting and technical support services.

Guideline Public Company 3

Ticker: 002063 CH Equity

Name: YGSOFT Inc.

Exchange: Shenzhen

Description: YGSOFT Inc. develops financial and management software products for electricity industry. The company also provides computer software and hardware system integration and technology consulting services.

Guideline Public Company 4

Ticker: 300047 CH Equity

Name: ShenZhen TianYuan DIC Information Technology Co.,Ltd

Exchange: Shenzhen

Description: ShenZhen TianYuan DIC Information Technology Co.,Ltd. develops, manufactures and sells telecommunication industry and public security industry software. The company's products include real-time online billing software, quasi real-time billing software, and customer relationship software for the telecommunications industry.

Guideline Public Company 5

Ticker: 300229 CH Equity

Name: Beijing TRS Information Technology Company Limited

Exchange: Shenzhen

Description: Beijing TRS Information Technology Company Limited develops and markets software and technology services for unstructured data management. The company provides software products that are enterprise search, content management and text mining.

Guideline Public Company 6

Ticker: 300365 CH Equity

Name: Beijing Henghua Albert Technology Co., Ltd.

Exchange: Shenzhen

Description: Beijing Henghua Albert Technology Co., Ltd. conducts software services, software sales, technical services and hardware sales. The company's main products include resource management platform (FRP), the graphics resource platform (GRP) and enterprise information integration services platform (EISP).

Guideline Public Company 7

Ticker: 300377 CH Equity

Name: Shenzhen Ysstech Info-tech Co., Ltd

Exchange: Shenzhen

Description: Shenzhen Ysstech Info-tech Co., Ltd provides software solutions for the financial industry in the PRC.

Guideline Public Company 8

Ticker: 300468 CH Equity

Name: Shenzhen Forms Syntron Information Co., Ltd.

Exchange: Shenzhen

Description: Shenzhen Forms Syntron Information Co., Ltd. develops software products. The company offers software development, application maintenance, system integration, and other services to commercial banks. Shenzhen Forms Syntron Information provides services in China, Hong Kong, and other areas.

Guideline Public Company 9

Ticker: 300682 CH Equity

Name: Longshine Technology Co., Ltd.

Exchange: Shenzhen

Description: Longshine Technology Co., Ltd. provides information technology services. The company IT maintenance, application software development, system integration, and cloud based networking services to the power and electricity industry. Longshine Technology serves customers in China and overseas.

Guideline Public Company 10

Ticker: 300687 CH Equity

Name: Guangzhou Sie Consulting Co., Ltd.

Exchange: Shenzhen

Description: Guangzhou Sie Consulting Co., Ltd. provides IT services. The company offers system integration, software development, business outsourcing, IT maintenance, and consulting services. Guangzhou Sie Consulting serves customers throughout China.

Guideline Public Company 11

Ticker: 600446 CH Equity

Name: Shenzhen Kingdom Sci-Tech Co., Ltd.

Exchange: Shanghai

Description: Shenzhen Kingdom Sci-Tech Co., Ltd. develops and markets financial security software. The company also provides computer system integration and system maintenance service.

Guideline Public Company 12

Ticker: 600570 CH Equity

Name: Hundsun Technologies Inc

Exchange: Shanghai

Description: Hundsun Technologies Inc develops application software for security firms, commercial banks, fund management firms, and other industries. The company also sells computer hardware and provides system integration services.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

(i) Long positions in Shares

Name of Director	Type of interests	Number of Shares	Percentage of issued share capital of the Company
Dong Hailong	Beneficial owner	4,000	0.00%

(ii) Long positions in underlying Shares of the Company

Name of Director	Type of interests	Description of equity derivatives	Number of underlying Shares	Percentage of the issued share capital of the Company
Lee Eric Kong	Beneficial owner	share option *(Note 1)*	1,000,000	0.10%

Note 1: The share options were granted on 1 December 2017.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in Shares

Name of Shareholders	Type of interests	Number of Shares	Approximate percentage of interests
Inspur Group Limited	Interest in a controlled corporation *(Note)*	621,679,686	65.25%
Inspur Overseas Investment Limited (浪潮海外投資有限公司)	Beneficial owner/Interest in controlled corporations *(Note)*	621,679,686	65.25%
Inspur Cloud Computing Investment Limited	Beneficial owner *(Note)*	193,401,286	20.30%
Wang Yu Kun	Beneficial owner	66,396,000	6.96%

Note: Inspur Overseas Investment Limited is taken to be interested in 621,679,686 Shares due to (1) its beneficial ownership of 288,478,000 Shares, (2) its 100% shareholding in Inspur Cloud Computing Investment Limited which, in turn, beneficially owns 193,401,286 Shares and (3) its interest in the Consideration Shares I (i.e. 139,800,400 Shares) to be issued by the Company.

Inspur Group Limited is taken to be interested in 621,679,686 Shares due to (1) its 100% indirect shareholding in Inspur Overseas Investment Limited and Inspur Cloud Computing Investment Limited which respectively beneficially owns 288,478,000 and 193,401,286 Shares and (2) its indirect interest in the Consideration Shares I to be issued by the Company to Inspur Overseas Investment Limited.

Long positions in members of the Group

Name of shareholders	Types of Interest	Equity interest held	Approximate percentage of shareholding in the members of the Group
Wu Xi Yi Jie Xin Cheng Information Technology Company Limtied# (無錫易捷信誠信息技術有限公司)	Beneficial owner	RMB200,000 in the registered capital of Wuxi Inspur Business Technology Company Limited# (無錫浪潮商服技術有限公司)	10%
Fang Wensheng	Beneficial owner	RMB690,000 in the registered capital of Inspur Fangzhi	34.5%
Bao Jianhua	Beneficial owner	RMB300,000 in the registered capital of Inspur Fangzhi	15%
Shanghai Huili Co. Ltd.# (上海滙力有限公司)	Beneficial owner	RMB50,000 in the registered capital of Shanghai Guoqiang Genersoft Incorporation# (上海國強通用軟件有限公司)	10%
Webgroup Co.	Beneficial owner	US$14,504 in the registered capital of Langchao Gaoyou (Shanghai) Services Incorporation# 高優(上海)信息科技有限公司	10.36%
Zheng Jianyang	Beneficial owner	RMB3,868,500 in registered capital of Shangdong Inspur Financial Software Information Company Limited# (山東浪潮金融軟件信息有限公司)	11.05%
Ji'nan Shaoting Cloud Network Information Technology Company Limited#(濟南紹廷雲網信息技術有限公司)	Beneficial owner	RMB5,680,000 in registered capital of Shangdong Inspur Yiyun Online Technology Company Limited #(山東浪潮易雲在線科技有限公司)	25%
Ji'nan Ronghui Yixiang Corporate Management and Consultancy Company Limited# (濟南融匯易享企業管理諮詢有限公司)	Beneficial owner	RMB5,320,000 in registered capital of Shangdong Inspur Yiyun Online Technology Company Limited #(山東浪潮易雲在線科技有限公司)	23%
Odoo S.A	Beneficial owner	USD1,000,000 in registered capital of Inspur Odoo (HK) Limited	20%

\# *English names are for identification purpose only*

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

As at the Latest Practicable Date, so far as known to the Directors, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. DIRECTORS' OTHER INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest audited financial statements of the Company were made up.

7. EXPERTS

Each of Amasse Capital Limited, Cheng & Cheng Limited and Ascent Partners Valuation Service Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they appear.

The following is the qualification of the expert who has provided its advice, which is contained in this circular:

Name	Qualification
Amasse Capital Limited	a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO
Ascent Partners Valuation Service Limited	professional valuation and advisory firm in Hong Kong
Cheng & Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, Amasse Capital Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2017), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Ascent Partners Valuation Service Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2017), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Cheng & Cheng Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2017), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group during the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the framework agreement dated 12 September 2016 between the Company (for itself and on behalf of the Group) and Inspur Group Limited (for itself and on behalf of the Inspur Group Companies) in relation to the continuing connected transactions for the three financial years ending 31 December 2019;

(b) the Share Purchase Agreement I and the Supplemental Agreement to Share Purchase Agreement I;

(c) the Share Purchase Agreement II and the Supplemental Agreement to Share Purchase Agreement II;

(d) the New Framework Agreement; and

(e) a joint venture agreement dated 9 May 2017 entered into between Inspur Group, Inspur Software Co., Ltd. (浪潮軟件股份有限公司) and Inspur Common Software Co., Ltd. (浪潮通用軟件有限公司) (a wholly-owned subsidiary of the Company) in relation to providing financial services to fellow subsidiaries of Inspur Group.

9. MISCELLANEOUS

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and the head office and principal place of business in Hong Kong of which is at Flats B & C, 30/F, Tower A, Billon Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon.

(b) The principal share registrar and transfer office of the Company is Royal Bank of Canada Trust Company (Cayman) Limited at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands and the Hong Kong branch share registrar and transfer office of which is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) Ms. Chan Wing and Mr. Zou Bo are joint company secretaries of the Company. Ms. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chinese Institute of Certified Public Accountants, and Mr. Zou is a non-practising member of the Chinese Institute of Certified Public Accountants and a member of the China Certified Tax Agents Association.

(d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the audited consolidated financial statements of the Group for the two financial years ended 31 December 2016 and 31 December 2017;

(c) the contracts referred to in the section headed "Material Contracts" of the this Appendix;

(d) the letter from the Independent Board Committee, as set out on pages 45 to 46 of this circular;

(e) the letter from the Independent Financial Advisor, as set out on pages 47 to 75 of this circular;

(f) the written consent referred to in the section headed "Experts" of this Appendix; and

(g) this circular.

INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Inspur International Limited (the "**Company**") will be held at Flats B & C , 30/F., Tower A, Billion Center, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong, on Thursday, 12 July 2018 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as the ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. "THAT:

   (a) the Share Purchase Agreement I (as defined in the circular of the Company dated 25 June 2018 (the "**Circular**")) (copy of the Share Purchase Agreement I has been tabled at the meeting and marked "A" signed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder including, without limitation, Proposed Acquisition I (as defined in the Circular) and the allotment and issue of the Consideration Shares I (as defined in the Circular) credited as fully paid in accordance with the terms and conditions of Share Purchase Agreement I, be and are hereby approved confirmed and ratified;

   (b) the Share Purchase Agreement II (as defined in the Circular) (copy of the Share Purchase Agreement II has been tabled at the meeting and marked "B" signed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder including, without limitation, Proposed Acquisition II (as defined in the Circular) and the allotment and issue of the Consideration Shares II (as defined in the Circular) credited as fully paid in accordance with the terms and conditions of Share Purchase Agreement II, be and are hereby approved confirmed and ratified;

   (c) the Directors of the Company be and are hereby authorized to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Share Purchase Agreements and the transaction contemplated thereunder."

2. "THAT:

(a) the New Framework Agreement (as defined in the Circular) (copy of the New Framework Agreement has been tabled at the meeting and marked "C" signed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved confirmed and ratified;

(b) the proposed New Caps (as defined and more particularly described in the Circular) in respect of the Continuing Connected Transactions be and are hereby approved and confirmed; and

(c) the Directors of the Company be and are hereby authorized to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the New Framework Agreement, the proposed New Caps and all transactions contemplated thereunder."

By Order of the Board
Inspur International Limited
Mr. Wang Xingshan
Chairman

Hong Kong, 25 June 2018

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

Head office and principal place of business in Hong Kong:
Flat B & C, 30/F.
Tower A, Billion Centre
1 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

Notes:

1. A form of proxy for use at the EGM or any adjournment thereof is enclosed.

2. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the annual general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

3. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

4. For the purpose of determining the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 9 July 2018 to Thursday, 12 July 2018, both days inclusive. In order to qualify for attending and voting at the EGM, all transfer documents together with the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Friday, 6 July 2018.

5. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

6. The voting on the resolution at the EGM will be conducted by way of a poll.

As at the date of this notice, the Board comprises Mr. Wang Xingshan, Mr. Lee Eric Kong and Mr. Jin Xiaozhou, Joe as executive Directors, Mr. Dong Hailong as non-executive Directors, and Ms. Zhang Ruijun, Mr. Wong Lit Chor, Alexis and Mr. Ding Xiangqian as independent non-executive Directors.