

inspur 浪潮

浪潮國際有限公司

INSPUR INTERNATIONAL LIMITED

(於開曼群島註冊成立的有限公司)

Incorporated in the Cayman Islands with limited liability)

(股份代號 Stock Code : 596)



2018

Interim Report 中期報告



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INSPUR INTERNATIONAL LIMITED • Interim Report 2018

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Samuel Y. Shen*
Mr. Dong Hailong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Chan Wing
Mr. Zou Bo

COMPLIANCE OFFICER

Mr. Dong Hailong

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE

www.inspur.com.hk

MAIN BOARD STOCK CODE

596

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period ended 30 June 2018, the revenue of the Group hits a 5-year's new high and recorded an increase of approximately 40.2% as compared with last same period. Gross profit of the Group recorded an increase of approximately 75.3% as compared with last same period. Profit attributable to owners of the Company was approximately HK\$120,272,000. In the period, the Group achieved a turnaround (turning losses into profits).

(1) Revenue from Enterprise Resource Management increased sharply

During the reporting period, the Group recorded a revenue of HK\$771,978,000 (2017: HK\$550,669,000) representing an increase of 40.2% as compared with last same period. The revenue from Enterprise Resource Management for the period was HK\$634,657,000 (2017: HK\$411,772,000), representing an increase of 54.1% as compared with last same period. The revenue from the software outsourcing business was HK\$137,321,000 (2017: HK\$138,897,000), representing a decrease of 1.1% as compared with last same period.

(2) Gross profit from operations increased sharply

Gross profit of the Group was HK\$270,074,000 for the period (2017: HK\$154,053,000), representing an increase of 75.3% as compared with last same period. The Group's gross profit margin was 35% (2017: 28%). The year-to-year increase in gross profit margin was mainly due to: 1) Although the competition is still fierce, due to the improvement in product standardization, the gross profit margin of the management software business has increased, 2) Low-margin software outsourcing business accounted for a decline.

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

During the reporting period, selling and distribution expenses and administrative expenses amounted to HK\$295,008,000 (2017: HK\$243,157,000), representing an increase of 21.3% as compared with last same period. The expense increasing is mainly due to expansion of sale, costs generated from recruitment of R&D and marketing staffs. Finally the overall staff cost of the Group has increased.

(4) Other incomes and other gains and losses

During the reporting period, the other incomes and other gains and losses amounted to HK\$75,287,000 (2017: HK\$61,282,000) meaning an increase of 22.9% as compared with last same period mainly due to: 1) bank interest income was about HK\$20,881,000 (2017: HK\$16,032,000) representing an increase of 30.2%, 2) refund from VAT was about HK\$27,600,000 (2017: HK\$23,084,000) representing an increase of 19.6%, 3) an amount of HK\$6,523,000 (2017: HK\$2,261,000) from government subsidies and grants were received and recognized as income, which represented an increase of 188.5% as compared with last same period.

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

In reporting period, net profit attributable to owners of the Company was approximately HK\$120,272,000 (2017: loss of HK\$12,635,000). Main reasons were: (1) Despite facing fierce market competition, the company's main management software business recorded a significant growth and gross profit margin increased at same time; 2) In the reporting period, the cloud service products as the our new business focus realized rapid income growth. The scale of business has expanded rapidly, and new revenue growth points have taken shape.

Basic earnings per share were HK\$12.62 cents (2017: loss of HK\$1.40 cents) and diluted earnings per share were HK\$12.60 cents (2017: loss of HK\$1.40 cents).



MANAGEMENT DISCUSSION AND ANALYSIS

(6) Financial resources and liquidity

As at 30 June 2018, equity attributable to owners of the Company amounted to HK\$2,141,209,000 (at 31 December 2017: HK\$2,077,037,000). Current assets amounted to HK\$1,828,920,000 of which HK\$1,239,273,000 was bank deposits and cash balances which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses amounted to HK\$846,145,000. The Group's current assets were around 2.16 times over its current liabilities (31 December 2017: 1.98 times).

As at 30 June 2018 and 31 December 2017, the Group had no bank borrowings.

FOREIGN EXCHANGE EXPOSURE

All of the Group's purchase and sales are mainly denominated in United States Dollars and Renminbi. The Group has not used any derivative instrument to hedge against its currency exposures. The Directors believe that with its sound financial position, the Group is able to meet its foreign exchange liabilities as and when they become due. Our company's functional currency is Renminbi and accepts reporting currency as HK dollar. During the reporting period, due to the impact on exchange difference arising on translation of currency, the range of changes in figures represented in the reports is slightly larger than the actual business operation results.

CAPTIAL STRUCTURE

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

EMPLOYEE INFORMATION

As at 30 June 2018, the Group had 3,716 employees. During the reporting period, total employees remuneration, including directors' remuneration and mandatory provident fund contributions amounted to approximately HK\$423,803,000.

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

CHARGES ON ASSETS

As at 30 June 2018, bank deposits in the amount approximately HK\$5,767,000 of the Group's assets was pledged (31 December 2017: HK\$14,126,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the reporting period, the Group has caught up with the strong growth trend of the enterprises' digital transformation needs and centered around "cloud+data". Through the use of new technologies of cloud computing, big data, Internet of things and AI etc., and taking Inspur Enterprise Cloud as the new momentum of enterprise transformation and upgrading, the company aims to help customers build smart enterprises.

I. ERM Related Business

1. Cloud service business

In the era of digital economy, traditional industries are faced with transformation and upgrading. IT technology represented by cloud computing has become an important driving force for the replacement of old growth driver. The Group has grasped the opportunity of "Moving business into cloud" and upgrades its Inspur ERP cloud.

The Group's products have comprehensively covered the large, medium and small micro-enterprise market. The company has built a core competitiveness in the cloud era with high-quality "cloud engine" to empower Inspur partners and enterprises. During the reporting period, in the large enterprise market, with the concept of Interconnection, Sharing, Accuracy and Wisdom as the lead, the company released the products such as HCM Cloud, travel cloud, e-procure cloud, tax-control cloud and cloud+ etc. to assist GS7.0 to provide enterprise cloud service to large scale enterprise.

The company further expands the application scenario of the human cloud (HCM cloud) and enhances the product experience, continuously optimizes the multiple application scenarios of human resources systems and compensation systems, such as personnel, attendance, recruitment, performance, self-service etc., and realizes centralization control of the human resources of for the entire group. The Company positioned itself to provide professional human resources cloud service solutions for large and medium enterprises. During the reporting period, the company continuously updated core products such as cloud attendance and cloud recruitment, and its core architecture capability is ahead of its competitors. In the future, the company will further accelerate market promotion, improve user application quality and expand user scale. During the reporting period, we signed with typical customers such as Chongqing Yunhai Machinery Manufacturing, Fujian Construction Engineering Group, China Insurance Information, and Shandong Grain Group etc., Our service users exceeded 1.5 million with 80% of the daily activity of employees and 90% of the executive activity.

For our procurement cloud (iGo Cloud) product, the company continues to further improve its functions and stability and has achieves full coverage of the procurement model. The products has become the first brand of e-procurement in the construction industry. In the future, the company will continue to accelerate the development of next-generation products and use the newest technology to enhance application field of our procurement cloud. This product is actively promoted and applied in the manufacturing industry. During the reporting period, the company has successfully signed with typical customers such as China Construction Steel Structure Corp. Ltd, Yuexiu (China) Transportation Infrastructure Investment, Guangdong Fenghua Hi-Tech and Jingzhi Construction etc.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the company continued to optimize the Cloud+ intelligent enterprise collaboration platform. In the first half of the year, it added new cloudy architecture support, added a “cloud circle” enterprise socialization platform, and added voice interaction, OCR, face recognition and other functions. The collaboration and intelligence capability has been further enhanced. At present, it includes five functions known as mobile portal, digital work platform, digital collaborative platform, intelligent assistant and mobile open platform to help enterprises to create a whole new way of working. The platform provides the mobile application services using the public cloud mode as an unified portal for employee collaboration and mobile applications, which integrates GS, PS, and business applications, and also integrates intelligent functions such as a natural language-based conversational platform. It has got a good market valuation. During the reporting period, the Company signed new typical customers such as Hubei Airport, CRRC Qingdao Sifang Co.,Ltd, Rongsheng Pharmaceutical, and China Forestry Group Corp have signed, and the daily PV has reached 1.5 million.

In the medium-sized enterprise market, on April 25, the Group’s micro-service architecture-based open source cloud ERP product and platform PS Cloud, which jointly launched by the Group and Odoo, was officially released. PS Cloud is an application platform for SME(Small&Medium-sized Enterprises) which has the characteristics of openness, sharing and agility. PS Cloud can support industrial Internet and its function covers multiple application scenarios such as collaborative application, industry chain collaboration, intelligent manufacturing, financial sharing etc.. PS Cloud provides one-stop solution for SMEs.

In the micro enterprise market, our Cloud Accounting 3.0 has completed online, the registration page has completely revised, 42 functions were optimized. The feedbacks from users’ experience of this product are more convenient, intelligent and user-friendly. Since its launch at the end of 2016, Inspur’s Cloud Accounting products, with the characteristics of “working anywhere and anytime” and “simple, mobile and intelligent”, help the Micro to greatly improve their work efficiency and save at least 60% of repetitive work and get positive feedbacks from users. During the reporting period, Cloud Accounting products continued to improve product updates and improve the service capabilities to Micro enterprises. In addition to basic online finance and online invoicing services to Micros, we also fully utilized the characteristics of SaaS software “simple, mobile, and intelligent”. The products also connects with service providers, taxation, banks and other related institutions to provide one-stop cloud ERP solution for ticket, finance, tax, finance and business integration for more SMEs and even Micros. Up to now, the total number of registered users of cloud accounting has exceeded 500,000, and the number of partners has exceeded 200. In January 2018, at the 6th China SME Service Conference organized by the SME Development Promotion Center of the Ministry of Industry and Information Technology, Inspur Cloud Accounting was successfully selected as the “2017 China SME Preferred Service Provider”.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Software and Data Service Business*

The company takes its products' advantages in the fields such as group management, intelligent manufacturing and enterprise big data etc., financial sharing fields to help large-scale group enterprise excute data transformation and management innovation. During the reporting period, benefiting from sale growth in the contracted contracts of last year and overall increase in demand of whole industry, the Group's management software continued to maintain substantial growth.

The Group is close to the domestic shared service hotspots, providing five modes of accounting sharing, reporting sharing, standard financial sharing, integrated financial sharing, and large sharing, providing shared service solutions for enterprises of different scales and types. Inspur Financial Sharing Center Including online accounting, electronic imaging, online approval and other new technical means, integrated Ctrip business travel management, support for electronic invoices, electronic accounting file management, covering comprehensive tax management and other content. To "enhance financial control through the sharing model" as the core, we will create a new financial management and control model of "flexible sharing, fine management, and operation and finance integration", vertically strengthen the management and control of subordinate operating units, horizontally realize the integration of financial services, and provide a powerful means for group companies to achieve effective supervision and management decisions. Technical support is the most effective tool for group companies to implement management accounting and promote financial transformation.

During the reporting period, the "Automatic Construction of Software for Intelligent Manufacturing" project submitted by the Group won the special project of "Key Scientific Issues of Transforming Technology", which is a national key R&D project. It highlighted the Inspur's strength and R&D capabilities in the Industrial Internet and intelligent manufacturing. "Inspur Manufacturing Big Data Analysis vs Open Platform V1.0", for the first time, was approved as domestic high-end software. "Inspur GS V7.0" was approved as the high-end software first edition of Shandong Province. On May 17, The Group's "Dynamic High Availability Cloud Service Integrated Support Platform" won the second prize of Shandong Science and Technology Award. On May 26th, at the Data fair, the <"One-Stop" Big Data Analysis Platform for Enterprise-level Customers> was released, and successfully selected as the "2017 Big Data Excellent Product and Application Solution Case" by the Ministry of Industry and Information Technology.

The company pays close attention to the opportunities brought out by the informationization upgrade from the national grain industry. We provide intelligent grain based solutions and products based on the Internet of Things, and provide services to grain authorities at all levels and grain depots in large, medium, small and micro-scale. In this report period, Smart Grain Solution has been singed more than 10 provincial&municipal grain groups. With the company's advantages in the grain industry and IOT technology, the company's market share in the field of grain information continues to keep in the No.1, and the company will further promote with its partners in the future to get even more market shares.

In terms of delivery and on-site implementation, the company has always adhered to the "customer-centric" philosophy and improved customer satisfaction through various measures. We continue to improve the layout of regional delivery centers, supplement localization implementers, and actively introduce experienced senior project managers and senior consultants to ensure the standardization of on-site implementation that the project progress is achieved by contract, improvement in delivery efficiency and reduction of delivery costs. During the reporting period, the customer satisfaction and customer return visit mechanism were improved to ensure the reputation of the company's products and services. During the reporting period, all key delivery indicators is keeping improvement.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group paid more attention to the strength of its partners, and took a series of marketing activities. On January 29 2018, the China Enterprise Big Data Application Research Report, which published by the Group, ICAEW and Shanghai National Accounting Institute was released in London to share the successful experience of Chinese enterprises' big data applications with the world. On April 25th, the 2018 Inspur Cloud ERP Ecological Partner Conference with the theme of "Creating a Cloud in the Future" was held in Jinan. Nearly 500 partners attended the event and more than 800,000 people participated in the online live broadcast platform. The company has put out the channel expansion strategy for the SME market, fully released the channel value. On May 17 2018, Inspur GS7.0 tour, first Shanghai Station was successfully held. Up to now, the tour has covered more than 20 cities including Shanghai, Guangzhou, Tianjin, Hefei, Zhengzhou, Linyi, Yantai and Harbin and many corporate customers participated. At same time with the Shanghai National Accounting Institute, We trained domestic large&medium-sized enterprises CFO, through the company's advanced accounting software management concept output, to undertake more social responsibilities.

II. Software Outsourcing Business

During the reporting period, the outsourcing business are facing difficulties in business transformation. The company will continue to explore Microsoft, Furukawa Electric, Mobile Aspire, Haier, F5, Xiaomi and other customers. At the same time, the company successfully signed with new customers such as Zhonghao Auto Network. In the future, the company will continue to develop new business such as big data platform and cloud products. The company will innovate service forms, increase service content, expand service scope, expand the proportion of new outsourcing business, and promote software outsourcing business transform to products, platforms, cloud and big data side. Strive to complete the outsourcing service model from the traditional model to the cloud-based and big data IT service model.

BUSINESS PLAN

In the view of Inspur, the digital transformation of enterprises should adhere to the concept of "interconnection, sharing, accuracy, wisdom". On the basis of clearing the digital strategy and direction, it closely focuses on the two driving forces of "cloud" and "data" and supports ERM evolution. Build a "corporate brain" to promote enterprise management to be more shared, accurate, visual, and intelligent.

In the second half of 2018, the company will continue to focus on industry and core products and to transform to provide enterprises SaaS service model. The company will speed up the recruit of high-end talents, vigorously develop cloud partners and build a cloud ecosystem to compete for SME management software market and increase the market share. At the end of July, the group completed to purchase approximately 76% equity interest of OpCo (details in Circular dated on 25 June 2018). Following the reorganization of the OpCo, the 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, the product lines of the Group will be diversified and the mutual innovation in the exploration, analysis and application of the big-data network that both parties could be benefited. Meanwhile, 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 will be expanded into the markets of construction industry and intelligent grain in which the Group has the leading position. After completion of reorganization, the group will work together with our partners to establish an industrial Internet ecosystem, promote enterprise to cloud, and developing enterprises' brains with big data and AI to help enterprises build intelligent enterprises. In foreseeable future, our company strives to become the leading enterprise of enterprise management software and cloud services in China.

OTHER INFORMATION

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

As at 30 June 2018, the interests and short positions of the directors and the chief executive and their associates in the shares and underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code contained in the Listing Rules were as follows:

(a) Long positions in the shares of the Company

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

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

Name of director	Capacity	Description of equity derivatives	Number of underlying shares (Note)	Subscription price per share HK\$
Lee Eric Kong	owner	share option	3,000,000	2.06

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

Save as disclosed above, as at 30 June 2018, none of the directors or the chief executive or its associates had any interests or short positions in any shares or underlying shares of equity derivatives of the Company or any of its associated corporations.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, the following shareholders other than the directors of the Company had notified the Company of relevant interests in the issued capital of the Company.

Long position in shares and underlying shares of the Company Ordinary shares of HK\$0.01 each of the Company

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

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

As at 30 June 2018, no persons have any other relevant interests or short positions in shares or underlying shares of equity derivatives of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTEREST

During the six months ended 30 June 2018, none of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 10 November 2008. On 1 December 2017, a total of 30,000,000 share options were granted to certain employees and directors of the group under the option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK\$2.06 per share. As at 30 June 2018, the numbers of shares available for issue and remained outstanding under the option scheme are 10,000,000 shares.

OTHER INFORMATION

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive directors, Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Mr. DingXiangqian. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee.

The audit committee has reviewed the report and has provided advice and comments thereon.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 30 June 2018, save as:

- (a) Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. Mr. Wang Xingshan is both the Chairman and CEO of the Company. On 17 August 2018, the Board announced that Mr. Wang Xingshan was the chairman of the Board and Mr. Lee Eric Kong was appointed as the CEO of the Group.
- (b) Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Partial Independent non-executive Directors and other non-executive director were unable to attend the annual general meeting as they were obliged to be away for business trips. The Company will improve its meeting scheduling and arrangement in order to ensure full compliance with Code A.6.7 in future.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model code for Securities Transactions by directors of Listing Issuers ("Model Code") contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors and has been confirmed that all directors have complied with the Model Code during the six months ended 30 June 2018.

By Order of the Board
Inspur International Limited
Chairman
Wang Xingshan

Hong Kong, 17 August 2018

As at the date of this announcement, the Board comprised Mr. Wang Xingshan, Mr. Lee Eric Kong and Mr. Jin Xiaozhou, Joe as executive directors; Mr. Dong Hailong as non-executive director; Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Mr. DingXiangqian as independent non-executive directors.

The board of Directors (the "board") of Inspur International Limited (the "Company") present the unaudited consolidated results (the "Unaudited Consolidated Results") of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with comparative unaudited figures for the corresponding period in 2017. These interim results have not been reviewed by the auditors of the company, but have been reviewed by the audit committee of the company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	Notes	Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	2	771,978	550,669
Cost of sales		(501,904)	(396,616)
Gross profit		270,074	154,053
Other income	3	75,287	61,282
Increase in fair value of investment properties		8,702	5,519
Administrative and other operating expenses		(171,999)	(146,606)
Selling and distribution expenses		(123,009)	(96,551)
Share of profit of associates		61,394	10,439
Profit (loss) before taxation	4	120,449	(11,864)
Taxation	5	(1,722)	(1,010)
Profit (loss) for the period		118,727	(12,874)
Profit (Loss) for the period attributable to owners of the Company		120,272	(12,635)
Profit (Loss) for the period attributable to non-controlling interest		(1,545)	(239)
		118,727	(12,874)
Profit (loss) per share			
Basic		12.62cents	(1.40)cents
Diluted		12.60cents	(1.40) cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Net Profit (loss) for the period	118,727	(12,874)
Item that may not be reclassified to profit or loss		
Other Comprehensive(expenses) Income:		
Exchange Difference arising on translation	(36,347)	41,459
Gain on revaluation upon transfer from property, plant and equipment to investment properties	—	639
Total Comprehensive Income for the period	<u>84,380</u>	<u>29,224</u>
Total comprehensive (expenses) income attributable to:		
Owners of the Company	87,974	28,671
Minority interests	(3,594)	553
	<u>84,380</u>	<u>29,224</u>

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	Notes	30.6.2018 HK\$'000 (unaudited)	31.12.2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		313,168	323,331
Investment property		569,250	567,920
Prepaid lease payments		33,140	34,017
Intangible assets		5,003	—
Available-for-sale Investment		24,381	21,582
Interests in associates		211,989	150,116
Interest in a jointly venture		130,974	145,558
		1,287,905	1,242,524
Current assets			
Inventories		15,652	12,586
Trade and bills receivables	8	203,517	159,209
Prepaid lease payments		868	880
Prepayments, deposits and other receivables		57,401	73,720
Contract assets		254,470	86,283
Amount due from ultimate holding company	8	1,831	1,429
Amount due from fellow subsidiaries	8	50,141	115,106
Pledged bank deposits		5,767	14,126
Bank balances and cash		1,239,273	1,350,777
		1,828,920	1,814,116
Current liabilities			
Trade and bills payables	9	125,559	114,589
Other payables, deposits received and accrued expenses		384,943	439,642
Contract liabilities		238,010	242,498
Amount due to ultimate holding company	9	1,506	2,952
Amount due to fellow subsidiaries	9	29,922	27,349
Deferred Income- government grant		37,137	70,280
Taxation payable		29,068	20,174
		846,145	917,484
Net current assets		982,775	896,632
Total assets less current liabilities		2,270,680	2,139,156

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	Notes	30.6.2018 HK\$'000 (unaudited)	31.12.2017 HK\$'000 (audited)
Non-current liabilities			
Deferred income-government grant		66,332	5,699
Deferred tax liabilities		52,223	52,171
		<u>118,555</u>	<u>57,870</u>
		<u>2,152,125</u>	<u>2,081,286</u>
Capital and reserves			
Share capital	10	9,527	9,527
Reserves		2,131,682	2,067,510
Equity attributable to owners of the Company		<u>2,141,209</u>	<u>2,077,037</u>
Minority interests		<u>10,916</u>	<u>4,249</u>
Total equity		<u>2,152,125</u>	<u>2,081,286</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital HK\$'000	Share Premium HK\$'000	Special Reserve HK\$'000	other reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Retained profits (loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2017	9,015	953,077	92	68,040	61,170	16,867	626,070	1,734,331	260	1,734,591
Exchange differences arising from translation of overseas operation	—	—	—	—	—	40,667	—	40,667	792	41,459
Profit(loss) for the period	—	—	—	—	—	—	(12,635)	(12,635)	(239)	(12,874)
Recognition of fair value of Investment property	—	—	—	639	—	—	—	639	—	639
Recognition of Share option	—	—	—	—	10,780	—	—	10,780	—	10,780
Dividend payable	—	—	—	—	—	—	(27,046)	(27,046)	—	(27,046)
Total recognise equity for the period	—	—	—	639	10,780	40,667	(39,681)	12,405	553	12,958
At 30 June 2017	9,015	953,077	92	68,679	71,950	57,534	586,389	1,746,736	813	1,747,549
At 1 January 2018	9,527	1,034,431	92	70,871	9,427	155,202	797,487	2,077,037	4,249	2,081,286
Exchange differences arising from translation of overseas operation	—	—	—	—	—	(34,298)	—	(34,298)	(2,049)	(36,347)
Profit(loss) for the period	—	—	—	—	—	—	120,272	120,272	(1,545)	118,727
Contribution by non-controlling interste	—	—	—	—	—	—	—	—	10,261	10,261
Recognition of Share option	—	—	—	—	6,780	—	—	6,780	—	6,780
Dividend payable	—	—	—	—	—	—	(28,582)	(28,582)	—	(28,582)
Total recognise equity for the period	—	—	—	—	6,780	(34,298)	91,690	64,172	6,667	70,839
At 30 June 2018	9,527	1,034,431	92	70,871	16,207	120,904	889,177	2,141,209	10,916	2,152,125

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(92,360)	(120,260)
NET CASH USED IN FROM INVESTING ACTIVITIES	6,820	295,772
NET CASH USED IN FINANCING ACTIVITIES	(18,321)	(27,046)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(103,861)	148,466
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,350,777	852,975
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(7,643)	24,710
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>1,239,273</u>	<u>1,026,151</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules.

ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) *New and amendments to standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The impact of adopting following standards are disclosed below:

- (i) HKFRS 9 Financial Instruments; and
- (ii) HKFRS 15 Revenue from Contracts with Customers.

The other newly adopted standards did not have material impact on the Group’s accounting policies and did not require retrospective adjustments.

(i) **HKFRS 9 Financial instruments**

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies.

The Group has two types of financial assets that are subject to the new expected credit loss model of the new HKFRSs:

- trade receivables and bills receivables, and
- other financial assets at amortised costs.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continue)

ACCOUNTING POLICIES (continue)

(a) *New and amendments to standards adopted by the Group (continue)*

(i) **HKFRS 9 Financial instruments (continue)**

Trade and bills receivable

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivable. To measure the expected credit losses, trade and bills receivable has been grouped based on shared credit risk characteristics and the days past due. The Group applied different expected loss rates to different classes of trade and bills receivable, according to their respective risk characteristics. Trade and bills receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group. The Group has assessed the expected credit loss model applied to the trade and bills receivable as at 1 January 2018 and the change in impairment methodologies has no significant impact of the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. The Group has adopted the expected credit loss model to assess the recoverability of other receivables as at 1 January 2018 and the change in impairment methodologies has no impact of the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

(ii) **HKFRS 15 Revenue from contracts with customers**

The Group has first time adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions of HKFRS 15, the Group has adopted the modified retrospective application and no comparative figures are restated.

HKFRS 15 establishes a new framework for revenue recognition. This replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard introduces a five-step model to determine when to recognise revenue and at what amount. Under the five-step model, revenue is recognised when control of goods or services is transferred to a customer and at the amount to which the entity expects to be entitled. Depending on the nature of the contracts, revenue is either recognised over time or at a point in time.

The adoption of HKFRS 15 did not result in any significant impact on the Group's financial position and results of operations based on the current business model.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continue)

ACCOUNTING POLICIES (continue)

- (b) New standards and amendments to standards and interpretations issued but not yet effective for the financial year beginning 1 January 2018 and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	To be determined
HKFRS 16 (Note i)	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019

Note i: HKFRS 16 Leases

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to account for certain leases outside the consolidated statement of financial position. Instead, all long-term leases must be recognised in the consolidated statement of financial position in the form of assets (for the rights of use) and lease liabilities (for the payment obligations), both of which would carry initially at the discounted present value of the future operating lease commitments. Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations.

The new standard will therefore result in an increase in right-to-use asset and an increase in lease liability in the consolidated balance sheet. In the consolidated income statement, rental expenses will be replaced with depreciation and interest expense. Interest expense on the lease liability will be presented separately from depreciation under finance costs. As a result, the rental expenses under otherwise identical circumstances will decrease, while depreciation and the interest expense will increase.

The combination of a straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial year of the lease, and decreasing expenses during the latter part of the lease term. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2019.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group, less discounts, returns and allowances.

Business segment

The Group is currently organized into software development and solution and software outsourcing.

About these operating divisions is presented below:

Segment revenues and results for the six months ended 30 June 2018

	Information technology services		
	Software development and solution HK\$'000	software outsourcing HK\$'000	Total HK\$'000
Revenue	634,657	137,321	771,978
Segment results	64,362	(9,571)	54,791
Unallocated income			23,590
Change in fair value of investment properties			8,702
Unallocated corporate expense			(28,028)
Share of results of associates			61,394
Profit before taxation			120,449
Taxation			(1,722)
Profit for the period			118,727

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

2. REVENUE AND SEGMENT INFORMATION (continue)

Business segment (continue)

Segment revenues and results for the six months ended 30 June 2017

	Information technology services		Total HK\$'000
	Software development and solution HK\$'000	software outsourcing HK\$'000	
Revenue	411,772	138,897	550,669
Segment results	(10,153)	(16,485)	(26,638)
Unallocated income			28,860
Change in fair value of investment properties			5,519
Unallocated corporate expense			(30,044)
Share of results of associates			10,439
(Loss) before taxation			(11,864)
Taxation			(1,010)
(Loss) for the period			(12,874)

3. OTHER INCOME

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Interest income	20,881	16,032
VAT refund	27,600	23,084
Government subsidies and grants	6,523	2,261
Rental income	20,163	19,267
Others	120	638
	75,287	61,282

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

4. LOSS BEFORE TAXATION

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Loss before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	118,963	109,002
Depreciation	10,667	8,933
	<u>129,630</u>	<u>117,935</u>

5. TAXATION

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Current tax:		
Hong Kong		
PRC Enterprise Income Tax	1,722	—
Deferred taxation	—	1,010
	<u>1,722</u>	<u>1,010</u>

Enterprise income tax rates applicable to the Group's subsidiaries in the PRC are ranging from 10% - 25%, and have been applied to calculate the Group's PRC Enterprise Income Tax in accordance with relevant laws and regulations in the PRC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Profit/(Loss) from operations		
Earnings/(Loss) for the purpose of basic earnings/(loss) per share ((Loss)/profit for the period attributable to equity holders of the parent)	120,272	(12,635)
Earnings/(Loss) for the purpose of diluted earnings/(loss) per share	120,272	(12,635)
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	952,736	901,536
Effect of dilutive potential ordinary shares –share options	2,010	—
Weighted average number or ordinary shares for the purpose of diluted earnings/(loss) per share	954,746	901,536

7. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

8. TRADE AND BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 210 days to its customers.

An aged analysis of trade receivables amounts due from fellow subsidiaries and ultimate holding company at the balance sheet date is as follows:

	30.6.2018 HK\$'000	31.12.2017 HK\$'000
Trade and bills receivables		
0-30 days	147,536	108,843
31-60 days	14,064	19,641
61-90 days	7,691	4,110
91-120 days	14,813	12,718
121-180 days	1,820	5,768
Over 180 days	17,593	8,129
	<u>203,517</u>	<u>159,209</u>

	30.6.2018 HK\$'000	31.12.2017 HK\$'000
Amounts due from fellow subsidiaries		
0-30 days	26,931	101,873
31-60 days	18,415	1,401
61-90 days	153	651
91-210 days	567	809
Over 210 days	4,075	10,372
	<u>50,141</u>	<u>115,106</u>

	30.6.2018 HK\$'000	31.12.2017 HK\$'000
Amounts due from ultimate holding company		
0-30 days	1,502	1,429
31-60 days	—	—
61-90 days	—	—
Over 90 days	329	—
	<u>1,831</u>	<u>1,429</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

9. TRADE AND BILL AND OTHER PAYABLES

Average credit period taken for trade purchases is up to 30 to 120 days. The following is an aged analysis of trade payables and amount due to fellow subsidiaries and ultimate holding company for the purchase of goods and services at the reporting date:

	30.6.2018 HK\$'000	31.12.2017 HK\$'000
Trade and bills payables		
0-30 days	12,816	29,102
31-60 days	8,479	10,398
61-90 days	8,744	7,307
Over 90 days	95,520	67,782
	<u>125,559</u>	<u>114,589</u>

	30.6.2018 HK\$'000	31.12.2017 HK\$'000
Amounts due to fellow subsidiaries		
0-30 days	4,523	3,303
31-60 days	2,726	2,503
61-90 days	322	—
Over 90 days	22,351	21,543
	<u>29,922</u>	<u>27,349</u>

	30.6.2018 HK\$'000	31.12.2017 HK\$'000
Amounts due to ultimate holding company		
0-30 days	584	2,952
31-60 days	—	—
61-90 days	—	—
Over 90 days	922	—
	<u>1,506</u>	<u>2,952</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

10. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2018	2,000,000	20,000
Issued and fully paid:		
At 1 January 2018	952,736	9,527
At 30 June 2018	952,736	9,527

All shares issued during the period rank pari passu with the then existing shares in all respects.

Note: New ordinary shares 186,184,400, on 17 July 2018 as consideration shares were issued pursuant to the Share Purchase Agreements. As of 17 July 2018, the total number of issued ordinary shares is 1,138,920,731 (details of which are set out in the announcements of the Company dated 9 May 2018 and 28 May 2018 and the circular of the Company dated 25 June 2018).

11. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in the condensed consolidated statement of financial position, certain of which also constitute connected transaction under Chapter 14A of Listing Rule of HKEX, the Group had entered into the following related party transactions during the period:

	Note	Six months ended	
		30.June.2018 HK\$'000	30.June.2017 HK\$'000
Supply Transactions	(i)	13,404	11,015
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	107,870	189,666
(2) The related commission amount		1,079	1,257
Purchase Transactions	(iii)	15,923	9,967
Common Services Transactions	(iv)	4,368	3,353
Leasing Services Transactions	(v)	17,453	16,609

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS (continue)

Notes:

- (i) The Group will supply Inspur group goods and service with reference to the market price.
- (ii) The Group appoints the Inspur Group to act as selling agency in the sale of the products and services of the Group. In return, the Inspur Group will receive a commission of 1% or less of the total sale value of the products and services.
- (iii) The Group will purchase the computer hardware and software products by the Group from the Inspur Group. The price per unit of the computer products and components purchased from Inspur Group will be agreed between parties with reference to the then prevailing markets prices of such computer hardware and software products at the relevant time.
- (iv) The Inspur Group shall provide Common Services for use the Group based on normal commercial terms through arm's length negotiation or on terms no less favorable than the terms available from independent third parties for provision of similar services.
- (v) The Group shall provide office for use (Leasing Services) to Inspur Group. The expense to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favorable than the terms available to independent third parties for provision of similar services.

12. SUBSEQUENT EVENT

On 9 May 2018, Inspur Electronics (a wholly owned subsidiary of the Company) entered into a share purchase agreements agreed to purchase from our controlling shareholder and independent third party approximately 76% equity interest of OpCo. The agreements have been approved by EGM held on 12 July 2018. Since Share purchase agreements were completed in the end the July, the OpCo became an indirect subsidiary of the Company and financial results will be consolidated in our Group accounts.

On 17 July 2018, the Company issued total 186,184,400 ordinary shares to the two Sellers at issue price HK\$2.65, among of them, 139,800,400 consideration shares issue to our controlling shareholder and 46,384,000 consideration shares to independent shareholder. After completion of the purchase, our controlling shareholder increased its equity interest of our company up to 54.58%.

OpCo's principal business is to provide software development and services to communication industry and transportation industry as well as big data services, which have been detailed in Announcement dated on 9 May 2018 and Circular dated on 25 June 2018.

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