SINOSOFT
TECHNOLOGY

Sinosoft Technology Group Limited
中國擎天軟件科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1297

INTERIM REPORT 2018

CONTENTS PAGE(S)

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Xin Yingmei *(Chairlady)*
Mr. Yu Yifa

NON-EXECUTIVE DIRECTOR

Mr. Hu Xiaoming, Simon

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kang Choon Kiat
Mr. Kwauk Teh Ming, Walter
Mr. Zong Ping

AUDIT COMMITTEE

Mr. Kwauk Teh Ming, Walter *(Chairman)*
Mr. Kang Choon Kiat
Mr. Zong Ping

REMUNERATION COMMITTEE

Mr. Kang Choon Kiat *(Chairman)*
Mr. Kwauk Teh Ming, Walter
Mr. Yu Yifa

NOMINATION COMMITTEE

Ms. Xin Yingmei *(Chairlady)*
Mr. Kwauk Teh Ming, Walter
Mr. Zong Ping

INVESTMENT MANAGEMENT COMMITTEE

Mr. Kang Choon Kiat *(Chairman)*
Mr. Kwauk Teh Ming, Walter
Mr. Zong Ping

AUTHORIZED REPRESENTATIVES

Mr. Yu Yifa
Dr. Ngai Wai Fung

COMPANY SECRETARY

Dr. Ngai Wai Fung *(FCIS, FCS (PE), CPA, FCCA)*

AUDITOR

Baker Tilly Hong Kong Limited

REGISTERED OFFICE

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

HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

No. 26 Tianpu Road
Jiangpu Street
Pukou District
Nanjing City
Jiangsu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower,
No. 248 Queen's Road East,
Wanchai,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Shanghai Pudong Development Bank
China Merchants Bank

COMPANY WEBSITE

www.sinosoft-technology.com

STOCK CODE

1297

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL DEVELOPMENT

The Group has been focused on developing application software for industries in the past years. In its major business areas, namely tax, low carbon & ecology and government big data, the Group has launched a number of popular application software products, and is able to provide relevant professional services. With years of product experience and service capabilities accumulated, the Group started its business transformation during the first half of 2018, moving from application software development to big data analytics and data value-added service operation, which not only help broaden the source of revenue but also increase the proportion of recurring income.

The establishment of internet platform for industries is an important step for the Group's business transformation. During the period under review, the Group's two internet platforms for industries developed rapidly. The Tianshang big data service platform under the tax segment provides credit ratings for export enterprises and assists financial institutions to provide financing services to high-quality export enterprises using big data analytics. Some of the financing products were officially launched and started generating revenue. On the other hand, the industrial internet cloud platform with the theme of "green & low carbon" under the low carbon & ecology segment has also rolled out. It not only provides green & low carbon products and services by the Group but will also connect with third parties' technologies and services, so as to provide an one-stop green solution to industrial enterprises.

In addition to striving for its own research and development ("**R&D**") innovation, the Group continues to form alliances with heavyweight partners. During the period under review, the Group announced the cooperation with Huawei Cloud to promote low carbon & ecology products across the country, and a strategic cooperative agreement with Ping An Technology (Shenzhen) Co., Ltd. ("**Ping An Technology**"), a wholly-owned subsidiary of Ping An Insurance (Group) Company of China, Ltd. ("**Ping An**", a company listed on the Main Board of the Stock Exchange of Hong Kong Limited, stock code: 2318). The Group and Ping An Technology will join forces in projects such as smart city, government public services, social governance, and eco-city development, in order to provide a comprehensive new smart city solution. Both parties will also have an in-depth cooperation in the two aforementioned internet platforms for industries. Through the strategic cooperation, the Group's experience and capabilities for data analytics in areas of government public service and social governance will combine Ping An Technology's extensive service capabilities to complement each other's advantages and further magnify the value of data.

Though the Group is proactively undergoing the business transformation, traditional products continue to see growing demand and have been rapidly promoting to more provinces and cities, that contributed the Group's revenue and profit maintaining at a satisfactory year-on-year growth during the period under review.

REVENUE

For the six months end 30 June 2018, the Group recorded a revenue of approximately RMB 286.5 million, representing a 19.8% growth when compared to RMB 239.2 million for the same period in 2017. During the period under review, all the Group's core business segments namely (i) tax software and related services; (ii) low carbon & ecology software and related services; and (iii) government big data software and related services recorded a continuous increase in revenue that in turn contributed the overall revenue growth of the Group.

Tax Software and Related Services

During the first half of 2018, despite the turbulent export environment, the Group intensified its promotion in products using SaaS (i.e. Software as a Service) model for rental sales and successfully attracted more export enterprises to purchase the Group's products, which can help them to plan and manage export tax rebates, as well as relevant financial and tax arrangements to deal with the severe export condition. This has contributed the Group's revenue generated from the tax software and related services for the six months ended 30 June 2018 amounted to approximately RMB 60.9 million, representing an increase of approximately 11.7% when compared with approximately RMB 54.6 million for the same period in 2017.

During the period under review, the Group's Tianshang big data service platform, which was established using big data analytics, has been enhancing. The platform is able to provide credit rating services such as corporate profiling, as well as financing services to enterprises through trade and transaction related data mining. On the other hand, it can facilitate financial institutions to control risks and provide loan for high-quality trading enterprises. The platform is designed to transform fragmented data in enterprises to valuable data assets, thus, to help financial institutions to locate enterprises with good credit, and enable enterprises to access low-cost financial services.

For the credit services provided by the platform, through gathering different assessment elements such as integrity rating, financial figures, growth path, risks cases, trade contribution value, and taxation habit for an enterprise, the platform will generate a comprehensive credit report, to analyse and rate the enterprise' business trend, risk factor, operating capacity, solvency, and industry trend. This can help enterprises to understand their own situation and implement targeted enhancing measures. For financing services, the platform designed four types of products targeting different enterprises' capital demand, namely loan upon customs clearance, loan upon invoice issuance, tax rebate credit loan, and tax rebate pledged and started to generate revenue. The platform can also provide financial technology services including pre-loan enterprises screening, reviewing for financing data during the loan period, and enterprises' business analysis after the loan repayment, which can help financial institutions to have a comprehensive understanding of their target enterprises and provide precise financing services.

Low Carbon & Ecology Software and Related Services

During the period under view, the Group's different low carbon & ecology products continued to be sold across the country. In addition, the provision of third-party carbon emission verification services for key industrial enterprises in Shandong and Qingdao has also helped to drive the revenue of low carbon & ecology software and related services for the six months ended 30 June 2018 to approximately RMB 44.0 million, representing an increase of approximately 15.0% when compared with approximately RMB 38.2 million for the same period in 2017.

The low carbon & ecology software and related services segment made a few important steps for business development during the period under review, including the in-depth cooperation with Huawei Cloud in areas of green ecology and industrial internet. The Group's low carbon & ecology products will be promoted across the country leveraging on the Huawei Cloud's sales network. In addition, the Group has launched the country's first industrial internet cloud platform with the theme of "green & low carbon", and established the portal and different function modules to provide the industrial enterprises with various application services for environmental protection, low carbon, energy saving, Internet of Things, and equipment etc. The platform will also open to developers for application development. This industrial internet cloud platform will help promote the Group's low carbon & ecology products and services to more industrial enterprises, and form a data ecosystem of "green & low carbon", so as to create more related demand.

Government Big Data Software and Related Services

For the six months ended 30 June 2018, revenue from government big data software and related services amounted to approximately RMB 154.6 million, representing an increase of approximately 25.1% when compared with approximately RMB 123.6 million for the same period in 2017. During the period under review, the Group's judicial and security related platforms continued to be sold across the country. Apart from new customers expansion, some existing customers' demand for phase two or phase three projects also contributed the revenue increase.

The Group continued to innovate products and services, and apply technologies such as big data analytics and artificial intelligence in different scenarios of government affairs, in order to grasp the huge market opportunities under the national big data strategy. During the period under review, the Group entered into a strategic cooperation agreement with Ping An Technology to jointly develop new smart city products. Combining both parties' big data analytics capabilities in their respective fields and complementing each other's strengths, will further magnify the value of data and create a new smart city solution that is accurate, efficient and convenient.

System Integration Solutions

System integration solutions is not the Group's key business segment, but a complementary service to the Group's other solutions purporting to provide a total solutions service to the Group's customers. During the six months ended 30 June 2018, revenue generated from system integration solutions segment amounted to RMB 27.0 million, representing an increase of approximately 18.7% when compared with approximately RMB 22.8 million for the same period in 2017.

COST OF SALES

The Group's cost of sales is largely made up of amortisation of capitalised software development cost as well as the costs for purchasing system and components for some of its projects. The Group is committed to research and development for new products. During the period under review, both amortisation cost and cost to purchase system and components increased. These have resulted in the increase of approximately 36.3% in the Group's cost of sales, from approximately RMB 94.3 million during the six months ended 30 June 2017 to approximately RMB 128.5 million during the six months ended 30 June 2018.

SEGMENT RESULTS AND SEGMENT RESULTS MARGIN

The Group's total segment results (representing the sum of revenue and value-added tax refund less cost of sales and research and development costs) grew by approximately 16.1% to approximately RMB 140.0 million for the six months ended 30 June 2018 from approximately RMB 120.6 million for the six months ended 30 June 2017.

The Group's overall segment results margin slightly decreased to approximately 48.8 % in the six-month period ended 30 June 2018, as compared with approximately 50.4 % in the six-month period ended 30 June 2017, attributable to the increase in cost of sales.

RESEARCH AND DEVELOPMENT COSTS

For the six months ended 30 June 2018, the Group's research and development costs decreased by approximately 20.8% to RMB 23.0 million as compared with RMB 29.0 million for the six months ended 30 June 2017. As the carrying value for other software in intangible assets at 31 December 2017 was lower than the prior year, amortisation of other software decreased accordingly, that results in the decrease for research and development costs.

OTHER INCOME AND GAINS

The Group's other income and gains, which was mainly made up of the interest income earned from bank deposits, decreased from approximately RMB 4.9 million for the six months ended 30 June 2017 to approximately RMB 3.2 million for the six months ended 30 June 2018, mainly due to reduced bank deposits and lower interest rate environment.

DISTRIBUTION AND SELLING EXPENSES

The Group's distribution and selling expenses increased from approximately RMB 18.8 million during the six months ended 30 June 2017 to approximately RMB 20.7 million during the six months ended 30 June 2018, the increase was principally attributable to the Group's proactive business expansion.

ADMINISTRATIVE AND GENERAL EXPENSES

The Group's administrative and general expenses decreased from approximately RMB 23.5 million during the six months ended 30 June 2017 to approximately RMB 21.3 million during the six months ended 30 June 2018, a result attributable to the stringent cost control policies implemented by the Group.

OTHER EXPENSES AND LOSSES

Other expenses and losses of the Group decreased to approximately RMB 0.2 million for the six months ended 30 June 2018, as compared to approximately RMB 0.6 million for the six months ended 30 June 2017, attributable to the decrease in foreign exchange losses.

INCOME TAX EXPENSE

The Group's income tax expense increased by approximately 48.0% from approximately RMB 7.4 million for the six months ended 30 June 2017 to approximately RMB 10.9 million for the six months ended 30 June 2018, mainly due to the increase in deferred tax charge. For the six months ended 30 June 2017, the renewal for the "High-tech Enterprise" certificates by Nanjing Skytech Co., Limited and Jiangsu Skyinformation Co., Limited was approved and as a result the Group was entitled to the preferential tax rate of 15%. As such, a reversal of over-provision of deferred tax for 2016, which was provided at a tax rate of 25% previously, was recorded in 2017. As the preferential tax rate of 15% was applicable and used for 2017 and 2018, no such reversal of over-provision was required for the six months ended 30 June 2018, which in turn results in a higher amount of deferred tax charge of approximately RMB 3.3 million when compared to the same period in 2017.

PROFIT AND TOTAL COMPREHENSIVE INCOME

Profit and total comprehensive income of the Group for the six months ended 30 June 2018 amounted to approximately RMB 88.8 million, representing an increase of approximately 18.0% as compared with RMB 75.2 million for the six months ended 30 June 2017. For the period under review, net profit margin maintained at a satisfactory level of 31.0%.

NET CURRENT ASSETS

As at 30 June 2018, the Group had net current assets of RMB 870.3 million (as at 31 December 2017: RMB 880.5 million).

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

During the six months ended 30 June 2018, the Group's primary source of fund came from cash generated from its operating activities. As at 30 June 2018, the net cash inflow from operating activities amounted to approximately RMB 21.0 million (as at 30 June 2017: approximately RMB 45.2 million) and the Group had cash and cash equivalent of RMB 175.8 million (as at 31 December 2017: RMB 240.3 million).

As at 30 June 2018, the Group has bank borrowings of RMB 50 million (as at 31 December 2017: Nil). The gearing ratio, which was calculated based on the total borrowings divided by total equity, was approximately 4.2% (as at 31 December 2017: Nil). The Group has no significant contingent liabilities as at 30 June 2018.

The capital structure of the Group consists of net debt, which includes the borrowings net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves. Relevant policies on capital risk management and financial instruments have no material changes from the disclosure in the Group's annual report for the year ended 31 December 2017 (the "**2017 Annual Report**"). Please refer to note 5 to the consolidated financial statements of the Group's 2017 Annual Report for more details.

INTANGIBLE ASSETS

The Group's intangible assets consist mainly of capitalised software costs and purchased software. The increase in intangible assets was mainly attributable to the addition to capitalised software costs of approximately RMB 49.2 million (as at 30 June 2017: RMB 44.6 million) and the addition to purchased software of RMB 37.8 million (as at 30 June 2017: RMB 15.1 million) less the amortisation charges for the period under review.

HUMAN RESOURCES

As at 30 June 2018, the Group had a total of 715 employees (as at 31 December 2017: 693). The Group offered competitive salary packages, as well as discretionary bonuses and contribution to social insurance to its employees. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department. The Company has also adopted a share option scheme and share award scheme to recognise and motivate contributions of its employees. Further details regarding the share option scheme and share award scheme is set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme" on pages 14 to 16 of this interim report.

FOREIGN EXCHANGE EXPOSURE

The primary economic environment in which the Group operates is in the PRC and its functional currency is RMB. However, certain of the Group's bank balances and other payables are denominated in United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

During the period under review, the Group recorded an exchange loss of approximately RMB 0.2 million (as at 30 June 2017: exchange loss of approximately RMB 0.6 million). This exchange loss during the period under review was a result of the appreciation of RMB against the USD and HKD. During the period under review, the Group had net assets in USD and HKD.

No currency hedging arrangements were made as at 30 June 2018. The Group will continue to closely monitor and manage its exposure to fluctuation in foreign exchange rates and make appropriate arrangement as and when necessary.

CHARGE ON ASSETS

As at 30 June 2018, the Group had no charge on assets.

SIGNIFICANT INVESTMENTS HELD

During the six months ended 30 June 2018, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2018, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group is continuously on the look-out for material investments that can add value to the Group.

OUTLOOK

Under the continuous rapid development in China information market, the Group not only aims at capturing the huge demand in its major business areas but also creating opportunities proactively. With a solid business foundation and continuously growing results, the Group is committed to exploring more scenarios for data application, creating new business ecosystems and opening up more revenue sources for the future.

For tax software and related services, the Group will continue to enhance Tianshang big data service platform. By integrating data from various aspects, such as customs, inspection and quarantine, foreign exchange, and national tax, the Group will develop more financing products based on big data analytics, and promote to more financial institutions and trade-related enterprises. On the other hand, the Group is planning to cooperate with partners that have advantages in other tax-related fields, to create brand new solutions for export tax rebate information management, as well as tax planning services, and to promote across the country. Thus, to assist more trade-related enterprises to manage their tax and financial status effectively and deal with the severe export environment.

For low carbon & ecology software and related services, the Group will continue to develop its green & low carbon industrial internet platform. With the national policies vigorously promoting intelligent manufacturing, as well as requiring industrial enterprises for green transformation, the Group's green & low carbon industrial internet platform will provide one-stop services by connecting upstream and downstream supply chain enterprises, financial institutions, technical institutions, and consulting institutions, etc. so as to empower industrial enterprises for green transformation and upgrade, and also establish a green industrial data ecosystem, which can extend to areas such as green brands and green financing. In addition, the Group will continue to develop the city green ecology solutions targeted government end, and promote across the country together with Huawei Cloud. This product is able to assist different levels of government for managing all factors in relation to green ecological city development, such as natural resources, ecological environment, business and economy, energy saving and emission reduction, in a comprehensive manner. Under the backdrop of national carbon trading, the Group will also continue to promote its solutions, which integrated features of carbon emissions monitoring, auditing, management, transaction assistance and carbon asset management, to enterprises involved in carbon trading.

For government big data software and related services, with product and industry experience accumulated in the past years, the Group will grasp the development trend, that is, the government pays equally high attention in ensuring city safety and stability, as well as public services, to launch inter-departmental and precise products, big data prediction and alert services, and is expected to bring a new development direction for e-Government. The Group will also continue to develop operational platforms for governments to provide services, and connect with third-party commercial organizations, to establish “G2B” and “G2C” operational scenarios, so as to provide platforms and models for government to purchase social services and respond to the continuous demand in livelihood.

With the solid foundation and clear development direction, the Group will continue to strengthen its R&D capabilities across its major businesses and promote its products and services throughout the country to meet the broader market and faster growth in the future.

OTHER INFORMATION

INTERIM DIVIDEND

The board (the "**Board**") of directors (the "**Director(s)**") did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, interests or short positions in the shares of the Company (the "**Share(s)**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) held by the Directors and chief executive of the Company which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set forth in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") are as follows:

Name of Director	Personal interests	Corporate interests	Interest of spouse	Number of Shares held (Note 1)	Approximate percentage of the issued share capital of the Company
Ms. Xin Yingmei	–	494,912,400 (L) (Note 2)	78,777,000 (L) (Note 3)	573,689,400 (L)	46.93%
Mr. Yu Yifa	1,170,000 (L)	–	–	1,170,000 (L)	0.10%

Notes:

(1) The letter "L" denotes the person's long position in such securities.

(2) These Shares are held by Long Capital International Limited which is beneficially and wholly-owned by Ms. Xin Yingmei.

(3) These Shares are held by Telewise Group Limited which is beneficially and wholly-owned by Mr. Wang Xiaogang, the spouse of Ms. Xin Yingmei.

Save as disclosed above, none of the Directors, or chief executives of the Company and/or any of their respective associates had registered any interests or short positions in any Shares and underlying Shares in, and debentures of, the Company or any associated corporations as at 30 June 2018, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2018, the persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of SFO:

Name of shareholder	Capacity	Number of Shares held (Note 1)	Approximate percentage of the issued share capital of the Company
Long Capital International Limited	Beneficial owner	494,912,400 (L) (Note 2)	40.49%
Telewise Group Limited	Beneficial owner	78,777,000 (L) (Note 3)	6.44%
Wang Xiaogang	Interest of a controlled corporation	78,777,000 (L) (Note 3)	6.44%
Alibaba.com Investment Holding Limited	Beneficial owner	165,000,000 (L) (Note 4)	13.50%
Alibaba.com Limited	Interest of a controlled corporation	165,000,000 (L) (Note 4)	13.50%
Alibaba Group Holding Limited	Interest of a controlled corporation	165,000,000 (L) (Note 4)	13.50%
FIL Limited	Interest of a controlled corporation	97,472,400 (L) (Note 5)	7.96%
Fidelity China Special Situations Plc	Beneficial owner	61,565,000 (L) (Note 5)	5.03%

Notes:

(1) The letter "L" denotes the person's long position in such securities.

(2) These Shares are held by Long Capital International Limited which is beneficially and wholly-owned by Ms. Xin Yingmei.

(3) These Shares are held by Telewise Group Limited which is beneficially and wholly-owned by Mr. Wang Xiaogang, the spouse of Ms. Xin Yingmei.

(4) Alibaba.com Investment Holding Limited is wholly-owned by Alibaba.com Limited which is a subsidiary of Alibaba Group Holding Limited.

(5) The beneficial ownership of the 61,565,000 shares held by Fidelity China Special Situations Plc arises in the context of passive investment activities only by the various investment accounts managed by FIL Limited on a discretionary basis.

Save as disclosed above, as at 30 June 2018, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") on 11 June 2013. As at the date of this interim report, the total number of Shares available for issue under the Share Option Scheme was 100,000,000 Shares, which represented 8.2% of the Shares in issue.

The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme:

The Share Option Scheme is established to recognise and acknowledge the contributions the Eligible Participants under the Share Option Scheme (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants under the Share Option Scheme an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants under the Share Option Scheme to optimize their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants under the Share Option Scheme whose contributions are or will be beneficial to the long-term growth of the Group.

2. Participants of the Share Option Scheme:

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "**Eligible Participants under the Share Option Scheme**" or each of whom, the "**Eligible Participant under the Share Option Scheme**") to subscribe for such number of new Shares as the Board may determine:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any Directors (including independent non-executive Directors) of the Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

3. Total number of Shares available for issue under the Share Option Scheme and percentage of issued shares as at the date of this interim report:

As at the date of this interim report, no share option has been granted under the Share Option Scheme.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not in aggregate exceed 100,000,000 Shares.

4. **Maximum entitlement of each participant under the Share Option Scheme:**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant under the Share Option Scheme in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company containing the identity of the Eligible Participant under the Share Option Scheme, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant under the Share Option Scheme and his/her associates (as defined in the Listing Rules) abstaining from voting.

5. **The period within which the Shares must be exercised under the Share Option Scheme:**

An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Share Option Scheme.

6. **The minimum period for which an option must be held before it can be exercised:**

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.

7. **The basis of determining the exercise price:**

Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary Shares as stated in the Stock Exchange daily quotation sheets on the date of grant of options, which must be a trading day; (ii) the average closing price of the ordinary Shares as stated in the Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary Share.

8. **The remaining life of the Share Option Scheme:**

It will remain in force for a period of 10 years. Since the adoption of the Share Option Scheme, no options had been granted under the Share Option Scheme.

During the six-month period ended 30 June 2018, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

SHARE AWARD SCHEME

A share award scheme was adopted by the Board on 13 December 2016 (the "**Share Award Scheme**") to:

(i) to recognise and motivate the contributions by any employee of the Group and non-executive Director of the Company and/or any member of the Group (excluding any employee of the Group and non-executive Director of any member of the Group who has tendered his/her resignation or who has been given a notice of dismissal by the Company and/or the relevant member of the Group) who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any member of the Group (the "**Eligible Participants under the Share Award Scheme**") and to give incentives thereto in order to retain them for the continual operation and development of the Group;

(ii) to attract suitable personnel for further development of the Group; and

(iii) to provide certain Eligible Participants under the Share Award Scheme with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Participants under the Share Award Scheme.

The Share Award Scheme shall be valid and effective for a term of ten years commencing on the date of adoption. Pursuant to the Share Award Scheme, Shares will be acquired by the independent trustee, ARK Trust (Hong Kong) Limited (the "**Trustee**") at the cost of the Company from the open market or subscribe for the relevant number of Shares awarded and shall hold such Shares until they are vested in accordance with the rules of the Share Award Scheme. Vested shares will be transferred to the selected participants at nil consideration. The Board shall not make any further grant of award of Shares under the Share Award Scheme such that the total number of Shares granted under the Share Award Scheme will exceed 5% of the total number of issued Shares as of the date of adoption of the Share Award Scheme. If the relevant subscription or purchase would result in the Trustee holding in aggregate, more than 5% of the total number of issued shares of the Company as of the date of the adoption of the Share Award Scheme, the Trustee shall not subscribe or purchase any further Shares. Details of the rules of the Share Award Scheme are set out in the announcement of the Company dated 13 December 2016.

On 13 December 2016 and 12 June 2017, the Board has further resolved that a sum of up to HKD 40 million and HKD 50 million be provided for the purchase of Shares to be awarded to the participants to be selected by the Board respectively. Details of the further share purchase under the Share Award Scheme are set out in the announcements of the Company dated 13 December 2016 and 12 June 2017.

During the period ended 30 June 2018, no Shares have been granted or agreed to be granted to any Eligible Participants under the Share Award Scheme.

EVENT AFTER THE REPORTING PERIOD

On 22 August 2018, based on the recommendation by the remuneration committee of the Company, the Board (including all independent non-executive Directors) resolved to grant a total of 16,005,000 Shares of the Company (the "**Awarded Shares**") to 113 employees (the "**Grantees**") whom are Eligible Participants pursuant to the Share Award Scheme at nil consideration, subject to the acceptance by the Grantees. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Grantees is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

The 16,005,000 Awarded Shares to be granted to the Grantees represent (i) approximately 1.31% of the total number of Shares of the Company in issue as at 22 August 2018; and (ii) the value of approximately HK$ 43,533,600, taking into account of the average closing price of HK$ 2.72 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its corporate governance code of practices. The Company has complied with all of the applicable code provisions as set out in the CG Code throughout the six months ended 30 June 2018, with the exception of the following deviation:

Code provision A.2.1 of the CG Code provides that, amongst others, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. Xin Yingmei is currently the chairlady and chief executive officer of the Company responsible for overseeing the operations of the Group.

The Board has considered the merits of separating the roles of chairlady and chief executive but is of the view that it is in the best interests of the Company to vest the two roles in Ms. Xin Yingmei. The Board considers that vesting the two roles in Ms. Xin Yingmei ensures that the Company is under a consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") on 11 June 2013 with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee consists of three independent non-executive Directors, Mr. Kwauk Teh Ming, Walter, Mr. Kang Choon Kiat and Mr. Zong Ping, with Mr. Kwauk Teh Ming, Walter serving as chairman of the Audit Committee. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, to oversee the audit process to develop and renew its policies and practices on corporate governance and to perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed the report prepared by the Group's internal audit department on its internal control policies and procedures, including the internal control procedures of the foreign exchange and other investment transactions for the period ended 30 June 2018.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "**Remuneration Committee**") on 11 June 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and code provision B.1.2 of the CG Code. The Remuneration Committee consists of one executive Director, being Mr. Yu Yifa and two independent non-executive Directors, being Mr. Kwauk Teh Ming, Walter and Mr. Kang Choon Kiat, with Mr. Kang Choon Kiat serving as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board regarding the Group's policy and structure for the remuneration of all Directors and senior management members and on the establishment of a formal and transparent procedure for developing remuneration policies concern; (ii) determining the terms of the remuneration packages of its Directors and senior management; (iii) reviewing and approving management's remuneration proposals with reference to corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "**Nomination Committee**") on 11 June 2013 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the CG Code. The Nomination Committee consists of one executive Director, being Ms. Xin Yingmei, and two independent non-executive Directors, being Mr. Kwauk Teh Ming, Walter and Mr. Zong Ping, with Ms. Xin Yingmei serving as the chairlady of the Nomination Committee. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment of members of the Board.

INVESTMENT MANAGEMENT COMMITTEE

The Company has established an investment management committee (the "**Investment Management Committee**") on 31 October 2012. The Investment Management Committee consists of three independent non-executive Directors, namely, Mr. Kang Choon Kiat, Mr. Kwauk Teh Ming, Walter and Mr. Zong Ping, with Mr. Kang Choon Kiat serving as the chairman of the Investment Management Committee. The primary function of the Investment Management Committee is to enhance the effectiveness of the Group's internal control and risk management procedures and to identify and manage the risks which the Group may be exposed to in handling foreign exchange and other investment transactions.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set forth in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. The Company has made specific enquiries with the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018. The Company was not aware of any incidence of non-compliance with the Model Code by the Directors during the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 June 2018 has been reviewed by the auditor of the Company, Baker Tilly Hong Kong Limited, in accordance with Hong Kong Standard on Review Engagements 2410 — "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor is included on page 20 in this interim report. The unaudited interim results of the Group for the six months ended 30 June 2018 has also been reviewed by the Audit Committee.

By Order of the Board
Sinosoft Technology Group Limited
Xin Yingmei
Chairlady

Hong Kong, 21 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BAKER TILLY
HONG KONG|天職香港

TO THE BOARD OF DIRECTORS OF SINOSOFT TECHNOLOGY GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Sinosoft Technology Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 21 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 21 August 2018
Choi Kwong Yu
Practising certificate number P05071

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	3	286,544	239,175
Value-added tax refund		4,883	4,696
Cost of sales		(128,477)	(94,254)
Research and development costs		(22,981)	(29,026)
Other income and gains	5	3,181	4,930
Distribution and selling expenses		(20,741)	(18,845)
Administrative and general expenses		(21,291)	(23,466)
Finance costs		(1,227)	—
Other expenses and losses	6	(161)	(597)
Profit before taxation	7	99,730	82,613
Taxation	8	(10,945)	(7,393)
Profit and total comprehensive income for the period		88,785	75,220
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		88,785	75,220
Non-controlling interests		—	—
		88,785	75,220
		RMB cents (unaudited)	RMB cents (unaudited)
Earnings per share			
– Basic and diluted	9	7.20	6.07

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		100,858	102,713
Lease prepayment for land use rights		14,128	14,308
Intangible assets	11	248,614	223,039
Available-for-sale investments		–	2,000
Financial assets at fair value through profit or loss		1,453	–
		365,053	342,060
Current assets			
Inventories		1,316	1,983
Trade and other receivables	13	959,224	813,936
Bank balances and cash		175,798	240,296
		1,136,338	1,056,215
Current liabilities			
Trade and bills payables	14	98,610	79,396
Other payables		110,438	79,645
Contract liabilities		1,668	–
Borrowings	15	50,000	–
Tax liabilities		5,299	16,673
		266,015	175,714
Net current assets		870,323	880,501
Total assets less current liabilities		1,235,376	1,222,561
Non-current liability			
Deferred tax liabilities	12	45,490	41,634
Net assets		1,189,886	1,180,927
Capital and reserves			
Share capital	16	9,876	10,009
Reserves		1,176,510	1,170,918
Equity attributable to owners of the Company		1,186,386	1,180,927
Non-controlling interests		3,500	–
Total equity		1,189,886	1,180,927

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Equity attributable to owners of the Company								
	Share capital RMB'000	PRC statutory reserve RMB'000	Capital reserve RMB'000	Share premium RMB'000	Share held under share award scheme RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017 (audited)	10,009	106,490	2,627	298,011	(12,255)	630,416	1,035,298	–	1,035,298
Profit and total comprehensive income for the period	–	–	–	–	–	75,220	75,220	–	75,220
Dividend (note 10)	–	–	–	–	–	(28,862)	(28,862)	–	(28,862)
Purchase of shares under share award scheme (note 17(b))	–	–	–	–	(34,242)	–	(34,242)	–	(34,242)
At 30 June 2017 (unaudited)	10,009	106,490	2,627	298,011	(46,497)	676,774	1,047,414	–	1,047,414
At 31 December 2017(audited)	10,009	126,441	2,627	298,011	(67,446)	811,285	1,180,927	–	1,180,927
Adjustments (note 2.2.2)	–	–	–	–	–	(547)	(547)	–	(547)
At 1 January 2018 (restated)	10,009	126,441	2,627	298,011	(67,446)	810,738	1,180,380	–	1,180,380
Profit and total comprehensive income for the period	–	–	–	–	–	88,785	88,785	–	88,785
Dividend (note 10)	–	–	–	–	–	(34,076)	(34,076)	–	(34,076)
Purchase of shares under share award scheme (note 17(b))	–	–	–	–	(8,098)	–	(8,098)	–	(8,098)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	3,500	3,500
Share repurchased and cancelled	(133)	–	–	(40,472)	–	–	(40,605)	–	(40,605)
At 30 June 2018 (unaudited)	9,876	126,441	2,627	257,539	(75,544)	865,447	1,186,386	3,500	1,189,886

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Net cash generated from operating activities	20,997	45,206
Investing activities:		
Purchase of property, plant and equipment	(1,827)	(2,206)
Capital injection from non-controlling interests	3,500	—
Payment for the cost incurred of intangible assets	(87,080)	(59,730)
Proceeds from release of pledged bank deposits	—	18,207
Net cash used in investing activities	(85,407)	(43,729)
Financing activities:		
Purchase of shares under share award scheme	(8,098)	(34,242)
Payment of repurchase of shares	(40,605)	—
New bank loan raised	50,000	—
Interest paid	(1,227)	—
Net cash generated from/(used in) financing activities	70	(34,242)
Net decrease in cash and cash equivalents	(64,340)	(32,765)
Cash and cash equivalents at beginning of the period	240,296	277,415
Effect of foreign exchange rate changes	(158)	(586)
Cash and cash equivalents at end of the period, represented by bank balances and cash	175,798	244,064

1. GENERAL AND BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 6 January 2011. The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 9 July 2013. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company. The principal activities of its subsidiaries (the Company and subsidiaries are collectively referred to as the "**Group**") in the People's Republic of China (the "**PRC**") are software development, system integration, sales of related computer products and provision of other related services.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("**IASB**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The condensed consolidated financial statements are presented in Renminbi ("**RMB**"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (same as the functional currency of the Company).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial assets, which are measured at revalued amounts of fair values.

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards ("**IFRSs**"), the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs for the current period

In the current interim period, the Group has applied, for the first time, following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS4 Insurance Contracts
Amendments to IFRS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IFRS 40	Transfers of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

The new and amendments to IFRSs have been applied in accordance with the relevant transaction provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and disclosures as described below.

2.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any differences at the date of initial application are recognised in the opening retained profits (or the other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standards retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying then particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

2.1.1 Key changes in accounting policies resulting from application of IFRS 15 — *continued*

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.1.2 Summary of effects of restatement arising from initial application of IFRS 15

The adoption of IFRS 15 does not have a significant impact on timing of revenue recognition, however, in previous years, contract balances were presented in the condensed consolidated statement of financial position under "trade and other receivables" or "other payables" respectively, until the products or services were delivered to the customers and the revenue was recognised. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

2.1.2 Summary of effects of restatement arising from initial application of IFRS 15 — *continued*

	Note	Carrying amounts previously reported at 31 December 2017 RMB'000 (audited)	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000 (restated)
Current liabilities				
Other payables		79,645	(1,796)	77,849
Contract liabilities	(a)	—	1,796	1,796

Note:

(a) As at 1 January 2018, advances from customers of RMB 1,796,000 in respect of contracts previously included in other payables were reclassified to contract liabilities.

The following table summarises the impact of first applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on condensed consolidated statement of financial position as at 30 June 2018

	As reported RMB'000 (unaudited)	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current liabilities			
Other payables	**110,438**	1,668	112,106
Contract liabilities	**1,668**	(1,668)	—

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

2.2 Impact and changes in accounting policies on application of IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and other items and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions as set out in IFRS 9. That is applied the classification and measurement requirements (including impairment) retrospectively to the instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to the instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

2.2.1 Key changes in accounting policies resulting from initial application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

2.2.1 Key changes in accounting policies resulting from initial application of IFRS 9 — *continued*

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income and gains or other expenses and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the fact and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impact thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are made based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on this asset is assessed individually for debtors with significant balances and collectively using a provision matric with appropriate groupings.

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

2.2.1 Key changes in accounting policies resulting from initial application of IFRS 9 — *continued*

Impairment under ECL model — continued

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contracts and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, i.e. 1 January 2018.

	Note	Available-for-sale RMB'000	Financial assets at FVTPL required by IFRS 9 RMB'000	Accumulated profits RMB'000
Closing balance at 31 December 2017 (audited) — IAS 39		2,000	—	811,285
Effect arising from initial application of IFRS 9:				
Reclassification:				
From available-for-sale	(a)	(2,000)	2,000	—
Remeasurement:				
From amortised cost to fair value	(a)	—	(547)	(547)
Opening balance at 1 January 2018 (restated)		—	1,453	810,738

Note:

(a) Available-for-sale investments

From Available-for-sale investments to financial assets at FVTPL

At the date of initial application of IFRS 9, the Group's unlisted equity investment of RMB 2,000,000 was reclassified from available-for-sale investments to financial assets at FVTPL. The fair value loss of RMB 547,000 relating to the equity investment previously carried at cost less impairment was adjusted to equity instruments at FVTPL and accumulated profits as at 1 January 2018.

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

Note: — continued

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, the trade receivables have been grouped based on shared credit risk characteristics.

As at 1 January 2018, after the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9, save as disclosed above, no additional credit loss allowance is recognised.

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretations

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line items.

	At 31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	At 1 January 2018 RMB'000 (restated)
Non-current assets				
Available-for-sale investments	2,000	—	(2,000)	—
Financial assets at FVTPL	—	—	1,453	1,453
Current liabilities				
Other payables	79,645	(1,796)	—	77,849
Contract liabilities	—	1,796	—	1,796
Capital and Reserves				
Reserves	1,170,918	—	(547)	1,170,371

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The directors of the Company consider that the application of other new IFRSs and amendments is unlikely to have a material impact on the Group's condensed financial position and performance as well as disclosure.

3. REVENUE AND SEGMENT INFORMATION

The Group is organised into different business units by products, based on which information is prepared and reported to the Group's chief operating decision maker (the "CODM") (i.e., the board of directors of the Company) for the purposes of resource allocation and assessment of performance.

For management purposes, the Group is organised into four core products, namely (i) tax software and related services; (ii) low carbon & ecology software and related services; (iii) government big data software and related services; and (iv) system integration solutions. These products form the basis on which the Group reports its segment information.

The following is an analysis of the Group's revenue and results by operating and reportable segments for the period under review:

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Segment revenue		
Government big data software and related services	154,633	123,614
Tax software and related services	60,949	54,582
Low carbon & ecology software and related services	43,952	38,226
System integration solutions	27,010	22,753
Total revenue	286,544	239,175
Timing of revenue recognition analysed as follows		
A point in time	175,148	149,231
Over time	111,396	89,944
Total revenue	286,544	239,175

3. REVENUE AND SEGMENT INFORMATION — *continued*

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Segment results		
Government big data software and related services	57,063	48,099
Tax software and related services	54,198	46,430
Low carbon & ecology software and related services	28,624	25,830
System integration solutions	84	232
Total segment results	139,969	120,591
Other income and gains	3,181	4,930
Distribution and selling expenses	(20,741)	(18,845)
Administrative and general expenses	(21,291)	(23,466)
Finance costs	(1,227)	—
Other expenses and losses	(161)	(597)
Profit before taxation	99,730	82,613
Taxation	(10,945)	(7,393)
Profit and total comprehensive income for the period	88,785	75,220

Geographical information

The Group's non-current assets are substantially located in the PRC, the place of domicile of the relevant group entities. Substantially all of the Group's revenue is derived from the PRC.

4. RESULTS FOR THE PERIOD

The CODM does not review assets and liabilities by operating segment for the purpose of resource allocation and performance assessment.

Whilst the sales of tax software and related services are generally stable throughout the year, the sales of low carbon & ecology software and related services, government big data software and related services and system integration solutions are seasonal, with sales generally being lower in the first half of the year than in the second half. There are a number of factors that cause these variations, but the primary factor is that the major customers of the Group, i.e. PRC government agencies, tend to conclude contracts in the second half of the year in accordance with their financial budgets approval procedures.

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Interest income	2,385	4,002
Government grants (Note)	611	765
Others	185	163
	3,181	4,930

Note:

The grants are incentives received by the PRC subsidiaries for eminent contributions to technology development and encouragement of business development. These grants are accounted for as immediate financial support with no future related costs expected to be incurred, and not related to any assets.

6. OTHER EXPENSES AND LOSSES

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Net foreign exchange loss	158	586
Others	3	11
	161	597

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Depreciation of property, plant and equipment	3,682	4,270
Amortisation of lease prepayment for land use rights	180	180
Amortisation of intangible assets:		
amortisation of capitalised software costs (included in cost of sales)	41,340	37,639
amortisation of other software (included in research and development costs)	20,165	25,103
	65,367	67,192
Net foreign exchange loss	158	586
Cost of inventories recognised as an expense	85,937	55,418

8. TAXATION

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Current tax:		
PRC enterprise income tax ("**EIT**")	5,915	5,766
Under/(over) provision in prior years	74	(60)
Deferred tax charge:		
Current period	4,956	1,687
	10,945	7,393

8. TAXATION — *continued*

Note:

The Company and Infotech Holdings Pte. Ltd., its subsidiary incorporated in Singapore, had no assessable profits subject to income tax in any jurisdictions since its incorporation.

The Company's subsidiaries established in the PRC are subject to PRC EIT at rates prevailing under the relevant laws and regulations in the PRC as follows:

1. On 7 December 2017, Nanjing Skytech Co., Limited ("**Nanjing Skytech**") and Jiangsu Skyinformation Co., Limited ("**Jiangsu Skyinformation**") obtained "High-tech Enterprise" certificates. Accordingly, the applicable income tax rates for both Nanjing Skytech and Jiangsu Skyinformation for the current period are 15% (six months ended 30 June 2017: 15%).

   In addition to being recognised as a "High-tech Enterprise", enjoying a preferential corporate income tax rate of 15%, if an enterprise is approved and certified by relevant regulatory authorities as "Key Software Enterprise under the National Plan" for the period, it can further enjoy a preferential tax rate of 10%. In 2016, Cai Shui [2016] No.49 has been enacted to enable entities to register for the "Key Software Enterprise under the National Plan" with tax bureau if the entities comply with relevant requirements. Nanjing Skytech was considered by directors to meet those requirements, and used a preferential corporate income tax rate of 10% (six months ended 30 June 2017: 10%) for the current period. The application of the preferential tax rate stated above is subject to critical accounting estimates of the Group's management based on their past experience.

2. Nanjing Skytech Quan Shui Tong Information Technology Co., Limited ("**Quan Shui Tong**") was formerly eligible for certain tax holidays and concessions and was exempted from PRC EIT for two years starting from its first profit-making year, followed by a 50% reduction for the following three years. Quan Shui Tong commenced its first profit-making year in the financial year ended 31 December 2014. Accordingly, for the current period, Quan Shui Tong had 50% reduction on PRC EIT (six months ended 30 June 2017: 50% reduction) (i.e. tax rate at 12.5% for both periods) and the tax holidays and concessions for Quan Shui Tong will end in the year ending 31 December 2018.

3. The applicable EIT rate for Zhenjiang Skyinformation Co., Limited ("**Zhenjiang Skyinformation**"), Jiangsu Skytech Investment Management Co., Limited, ("**Jiangsu Skytech Investment**"), Qingdao Skytech Software Co., Limited ("**Qingdao Skytech Software**") and Nanjing Aisita Real Estate Co., Limited ("**Nanjing Aisita**") are 25% for the current period (six months ended 30 June 2017: 25%).

9. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the unaudited profit for the six months ended 30 June 2018 of approximately RMB 88,785,000 (six months ended 30 June 2017: RMB 75,220,000) and 1,232,603,952 shares (six months ended 30 June 2017: 1,238,709,600 shares).

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for shares repurchased and cancelled that took place as mentioned per note 16 during the current interim period.

Dilutive earnings per share is the same as basic earnings per share as the Group had no potential outstanding ordinary shares throughout the six-month period ended 30 June 2018 and 30 June 2017.

10. DIVIDENDS

During the six months ended 30 June 2018, a 2017 final dividend amounting to RMB 0.0278 (approximately HKD 0.0341) per share was proposed by the Company's directors on 26 March 2018, and subsequently approved at the annual general meeting dated 12 June 2018. The directors did not recommend payment of an interim dividend for the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: nil).

During the six months ended 30 June 2017, a 2016 final dividend amounting to RMB 0.0233 (approximately HKD 0.0267) per share was adjusted for bonus issue which was proposed by the Company's directors on 30 March 2017, and subsequently approved at the annual general meeting dated 10 June 2017.

11. INTANGIBLE ASSETS

During the six months ended 30 June 2018, the Group incurred the additions of cost at approximately RMB 87,080,000 (six months ended 30 June 2017: RMB 59,730,000) which represented the capitalised software costs generated internally amounting to approximately RMB 49,243,000 (six months ended 30 June 2017: RMB 44,615,000) and other purchased software amounting to approximately RMB 37,837,000 (six months ended 30 June 2017: RMB 15,115,000) for the new software product development.

12. DEFERRED TAXATION

The following are the deferred tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior periods:

	Allowance for doubtful receivables RMB'000	Withholding tax on undistributed profits RMB'000	Capitalised software costs RMB'000	Total RMB'000
At 1 January 2017 (audited)	817	(17,038)	(27,056)	(43,277)
Credit/(charge) to profit or loss	—	(4,000)	2,313	(1,687)
At 30 June 2017 (unaudited)	817	(21,038)	(24,743)	(44,964)
At 1 January 2018 (audited)	545	(27,838)	(14,341)	(41,634)
Charge to profit or loss	—	(4,500)	(456)	(4,956)
Reversal upon payment of withholding tax	—	1,100	—	1,100
At 30 June 2018 (unaudited)	545	(31,238)	(14,797)	(45,490)

12. DEFERRED TAXATION — *continued*

Under the EIT Law of PRC, dividends paid to non-resident overseas shareholders declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards are subject to a PRC withholding tax rate of up to 10%. For investors incorporated in Singapore, a preferential rate of 5% will be applied where appropriate. As at 30 June 2018 and 31 December 2017, the Group has fully provided the deferred tax liabilities of withholding tax on the undistributed earnings of the PRC subsidiaries.

The deferred tax balance has reflected the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Trade receivables	864,375	804,711
Less: Allowance for doubtful debts	(5,453)	(5,453)
	858,922	799,258
Prepayments to suppliers	61,224	5,223
Prepayment to the trustee	2	1
Deposits	3,972	4,122
Deposits for court case (Note (a))	28,160	—
Value-added tax recoverable	2,210	1,986
Advances to employees	3,211	1,831
Lease prepayment for land use rights	360	360
Others	1,163	1,155
Total trade and other receivables	959,224	813,936

13. TRADE AND OTHER RECEIVABLES — *continued*

Note:

(a) On 30 June 2018, an amount of RMB 28,160,000 was deposited to an escrow account from the fixed deposit that we placed previously for this purpose in our bank account by the Nanjing Intermediate People's Court in relation to the court case between Nanjing Skytech and Nanhua Skytech Technology Co., Ltd. For details, please refer to note 19.

The Group's trade customers are principally government agencies and the Group offered credit terms to them with reference to the expected timing of settlement from the customers, which was around one year, although a longer credit term may be extended to certain customers, depending on price, the size of the contract, credibility and reputation of the customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts and is presented based on the date of delivery of goods or rendering of services to customers which approximated the respective dates on which revenue was recognised.

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
0 to 60 days	245,116	299,208
61 to 90 days	6,574	9,302
91 to 180 days	636	575
181 days to 365 days	280,785	163,039
Over 1 year but less than 2 years	228,139	219,944
Over 2 years	97,672	107,190
	858,922	799,258

14. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payable presented based on the invoice date at the end of the reporting period:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
0 to 90 days	87,303	74,587
91 to 180 days	5,274	604
181 days to 365 days	1,885	2,723
Over 1 year	4,148	1,482
	98,610	79,396

The trade and bills payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from invoice date.

15. BORROWINGS

During the current interim period, the Group obtained a new short-term bank loan amounting to RMB 50,000,000 (31 December 2017: RMB nil). The loan was secured by guarantee of Jiangsu Skytech, a subsidiary of the Company and land use rights and buildings of the Group with carrying amounts of approximately RMB 14,488,000 and RMB 79,715,000 respectively, interest bearing at one year Loan Prime Rate plus 61.55 basis points and are repayable within one year.

16. SHARE CAPITAL

Shown on the condensed consolidated statement of financial position

	As at 30 June 2018		As at 31 December 2017	
	Number of shares '000	RMB'000	Number of shares '000	RMB'000
At 1 January 2018/2017 (audited)	1,238,710	10,009	1,238,710	10,009
Shares repurchased and cancelled	(16,325)	(133)	–	–
At 30 June 2018 (unaudited)/ 31 December 2017 (audited)	1,222,385	9,876	1,238,710	10,009

17. SHARE-BASED PAYMENT TRANSACTIONS

(a) Pre-IPO Share Option Scheme

Pursuant to the written solution passed on 11 June 2013, the Company adopted a pre-IPO share option scheme (the "**Share Option Scheme**") to (i) motivate the personnel to optimise their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the personnel whose contributions are or will be beneficial to the long-term growth of the Group. The Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

As at 30 June 2018 and 31 December 2017, no option has been granted under the Share Option Scheme since its adoption date.

(b) Share Award Scheme

The Company adopted a share award scheme (the "**Share Award Scheme**") on 13 December 2016 (the "**Adoption Date**") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme are to (i) recognise and motivate the contributions by certain employees and non-executive directors of the Company and/or any member of the Group who, in the sole opinion of the Board of Directors, will contribute or have contributed to the Company and/or any member of the Group ("**Eligible Participants**") and to give incentives thereto in order to retain them for the continual operation and development of the Group; (ii) attract suitable personnel for further development of the Group; and (iii) provide certain Eligible Participants with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Participants.

During the year ended 31 December 2016 and 31 December 2017, 5,550,000 and 10,303,000 ordinary shares of the Company have been acquired by the Company through its trustee, ARK Trust (Hong Kong) Limited (the "**Trustee**"), at aggregate costs of approximately HKD 13,700,000 (equivalent to approximately RMB 12,255,000) and HKD 26,300,000 (equivalent to approximately RMB 23,396,000) (the "**First Contributed Amount**") respectively.

Pursuant to the Company's announcement dated 12 June 2017, the Board of Directors further resolved to set aside a sum of up to HKD 50 million (equivalent to approximately RMB 44,131,000) for the purchase Company's ordinary shares through the Trustee to be awarded to the Eligible Participants as to be selected by the Board of Directors (the "**Second Contributed Amount**"). The Second Contributed Amount will be paid to the Trustee as and when required.

During the six months ended 30 June 2017, 5,078,000 ordinary shares of the Company have been acquired by the Company through its Trustee, at an aggregate cost of approximately HKD 12,497,000 (equivalent to approximately RMB 10,846,000).

17. SHARE-BASED PAYMENT TRANSACTIONS — *continued*

(b) Share Award Scheme — *continued*

During the year ended 31 December 2017 and six months ended 30 June 2018, 15,577,000 and 4,226,000 ordinary shares of the Company have been acquired by the Company through its Trustee, at an aggregate cost of approximately HKD 37,398,000 (equivalent to approximately RMB 31,795,000) and HKD 9,999,000 (equivalent to approximately RMB 8,098,000) respectively.

As at 30 June 2018 and 31 December 2017, no shares have been granted or agreed to be granted to any Eligible Participants pursuant to the Share Award Scheme.

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the period were as follows:

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Short-term benefits	2,352	2,513
Retirement benefits scheme contributions	124	192
	2,476	2,705

19. CONTINGENT LIABILITIES

Nanjing Skytech has been involved in a series of disputes with Janful Limited ("**Janful**") over a joint venture company set up between Nanjing Skytech and Janful in 2000. Various legal actions were commenced by Janful for claims against the Group, but most of which were dismissed by courts or were subsequently withdrawn. On 15 September 2015, the Group received a court order issued by the Nanjing Intermediate People's Court, ordering the defendants of the Group to pay damages of approximately RMB 27,906,000 to Nanhua Skytech Technology Co., Ltd (南京南華擎天資訊科技有限公司) ("**Nanhua Skytech**"). The Group had issued a defend letter and filed an appeal to the Higher People's Court of Jiangsu Province ("**Higher Court**"). On 1 July 2016, the Group received a judgement made by the Higher Court to maintain the claim of Nanhua Skytech. On 11 July 2016, the Group issued another defend letter to the Supreme People's Court of The People's Republic of China ("**Supreme People's Court**"). On 3 August 2016, the Group received a notice of case registration from the Supreme People's Court. In October 2016, the Group issued a supplementary defend letter to the Supreme People's Court. Pursuant to the Company's further announcements dated 6 December 2015, Janful filed an application to the Beijing Fourth Intermediate People's Court (the "**Beijing Court**") for the revocation of the China International Economic and Trade Arbitration Commission Arbitral Award ("**CIETAC Arbitral Award**") which was given in favour of Nanjing Skytech. After these trials, the Beijing Court made a judgement that the rationale for Janful's application to revoke the CIETAC Arbitral Award was unsubstantiated. On 7 November 2016, the Beijing Court issued a decision to dismiss Janful's application of revoking the CIETAC Arbitral Award. This decision is final and conclusive with effect from 7 November 2016 as per Company's announcement dated 14 November 2016. The directors believe, based on legal advice, that the action (for the case in the Supreme People's Court) can be successfully defended and therefore no losses (including claims for costs) will be incurred. Accordingly, no provision for any of such claims was made in the consolidated financial statements at 30 June 2018 and prior year.

Based on the aforesaid, the Company remains liable for damages of approximately RMB 27,906,000 to Nanhua Skytech, however, the Group emphasizes that, as disclosed in the Company's prospectus dated 27 June 2013, any potential economic losses arising as a result of the above case will be borne by the original shareholders and any net loss arising from above case will only be 66.7% of the gross amount.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair values at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurement are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — *continued*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis — continued

- Level 1 fair value measurement are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurement are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable input(s)
	30 June 2018	31 December 2017			
Unlisted equity investments	4% equity investment in Jiangsu Cyberunion Information Industry Institute Union Co., Ltd. valued at RMB 1,453,000	N/A	Level 3	Adjusted net asset value method	N/A

The directors of the Company consider that the carrying amounts of the financial instruments carried at other than fair values approximated their fair values as at 30 June 2018 because of their short-term maturities.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — *continued*

Reconciliation of Level 3 fair value measurement of financial assets

	Unlisted equity investments RMB'000
At 1 January 2017, 31 December 2017 and 1 January 2018	2,000
Total losses:	
– charged to profit or loss	(547)
At 30 June 2018	1,453

Fair value measurements and valuation process

The Group has a team headed by the finance manager performing valuations for the financial instruments, including the unlisted equity securities. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with each of the reporting dates.