浪潮

浪潮國際有限公司
INSPUR INTERNATIONAL LIMITED

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

(股份代號 Stock Code：596)

CONTENTS

CORPORATION INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Samuel Y. Shen*
Mr. Dong Hailong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Chan Wing
Mr. Zou Bo

COMPLIANCE OFFICER

Mr. Dong Hailong

AUDITORS

Deloitte Touche Tohmatsu

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MAIN BOARD STOCK CODE

596

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

On behalf of the Board of Directors of Inspur International Limited (the "Company"), I would like to present the financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

FINANCIAL SUMMARY

During the year under review, after completion of integration of Tianyuan Communications System Co., Ltd and its subsidiaries, total revenue was HK$2,442,616,000 (2017: HK$1,965,150,000), representing an increase of 24.3% compared with last year. Our group's net profit reached a new high which was mainly due to 22.3% year-to-year growth from the revenue of management software and cloud business and a substantial increase in share of profit of an associate at same time. Profit attributable to owners of the Company during the year was approximately HK$324,030,000, increased by approximately 132.8% compared with HK$139,201,000 in 2017.

Basic earnings per share attributable to owners of the Company during the year was approximately 29.09 HK cents (2017: 13.15 HK cents) and diluted earnings per share was 29.01 HK cents (2017: 13.05 HK cents).

BUSINESS REVIEW AND OUTLOOK

In 2018, the Company unwaveringly transformed into an enterprise cloud service provider. During the reporting period, the Company completed the cloud service layout for customers in different scales. The marketing of cloud service business also achieved breakthrough growth. The Company's confidence in the transformation of cloud services further strengthened. Benefiting from the parent company's high-quality asset injection and the steady development of management software market, the Company has achieved good operating results.

In 2019, China's economy will continue to improve, with the expectation of a new round of state-owned enterprise reform and inter-enterprise restructuring, as well as the application of new technologies such as cloud (cloud computing), data (big data), things (Internet of Things), intelligence(artificial intelligence). The application of new technologies will further stimulate the information needs of senior decision makers. We expect the overall software and service industry to maintain steady growth. In addition to continuing to expand the management software business in 2019, we will also closely monitor the opportunities for mergers and acquisitions in the market. The Company is striving to build a first-class management team, a first-class technical research and development team, and a first-class marketing team and meanwhile provides the incentive mechanism more matching with the Company's development. The future business performance will be steadily improved. The success is inseparable from the supports from shareholders, the guidance from the board of directors, the efforts from all employees and supports from partners and people who always care about the Company's development.

APPRECIATON

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

Wang Xingshan
Chairman

Hong Kong, 18 March 2019

FINANCIAL REVIEW

During the year ended 31 December 2018, the revenue of the Group achieved new heights, representing an increase approximately 24.3% and also gross profit growth around 34.7% as compared with last corresponding period. Profit attributable to owners of the Company during the year was approximately HK$324,030,000, increased by approximately 132.8% compared with HK$139,201,000 in 2017.

(1) Revenue from Management Software and cloud services recorded a substantial growth.

During the reporting period, the Group recorded a revenue of HK$2,442,616,000 (2017: HK$1,965,150,000) representing an increase of 24.3% as compared with last year. Among them, the revenue of management software and cloud services for the year was HK$2,107,522,000 (2017: HK$1,723,445,000), representing an increase of 22.3% and the revenue from the Internet of things (IoT) was HK$335,094,000 (2017: HK$241,705,000), representing an increase of 38.6% as compared with last year. During the reporting period, as our new development focus, Cloud business got rapid growth in revenue and quickly expansion in business scale. New revenue growth points are initially formed.

(2) Gross profit from operations increased sharply

During the reporting period, gross profit of the Group was HK$938,764,000 for the year (2017: HK$697,070,000), representing an increase of 34.7% as compared with last year. The Group's gross profit margin was improved and up to 38.4% (2017: 35.5%). The year-to-year improvement in gross profit margin was mainly due to: 1)Rapidly growth in cloud business and at the same time its GP margin was higher than other operation business; 2) Despite the intense competition, the gross profit margin of management software was steadily increased mainly because of continuously improvements in product standardization.

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

During the reporting period, selling and distribution expenses and administrative expenses amounted to HK$911,905,000 (2017: HK$738,375,000), representing an increase of 23.5% as compared with last year. The expense increasing was mainly due to growth in income scale and engagement of more R&D and marketing staff. The overall operation cost of the Group has increased.

(4) Other incomes and other gains and losses

During the year, the other incomes and other gains and losses amounted to HK$196,457,000 (2017: HK$172,107,000) meaning an increase of 14.1% as compared with last year mainly due to: 1) increase in occupancy rate from new reorganized investment properties located in Beijing Zhongguancun software park Phase 3. The overall income from properties rental and properties management fees amounted to HK$58,675,000 (2017: HK$49,727,000) representing 18% increase comparatively, and 2)an amount of HK$26,972,000 (2017: HK$14,040,000) from government subsidies and grants was recognized as income in current year, which represented an increase of 92.1% as compared with last year.

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

Net profit attributable to owners of the Company for the year was approximately HK$324,030,000 (2017: HK$139,201,000), representing a significant improvement as compared with last year. Main reasons were: (1) Despite facing fierce market competition, the company's main management software business continued to grow steadily and achieved a good economic scale; (2) The profits from new-acquired Tianyuan Communications during the reporting period were beyond the profit target and got steady growth compared with the corresponding period; (3) Share from the profits of investment associates got a substantial growth.

Basic earnings per share was HK29.09 cents (2017: HK13.15 cents) and diluted earnings per share was HK29.01 cents (2017: HK13.05 cents).

(6) Financial resources and liquidity

As at 31 December 2018, equity attributable to owners of the Company amounted to HK$2,053,941,000 (at 31 December 2017: HK$1,901,483,000). Current assets amounted to HK$1,816,092,000 of which HK$865,181,000 were bank deposits and cash balances which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses amounted to HK$1,317,722,000. The Group's current assets were around 1.38 times over its current liabilities (31 December 2017: 1.16 times).

As at 31 December 2018, the Group had no bank borrowings.

FOREIGN EXCHANGE EXPOSURE

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

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

EMPLOYEE INFORMATION

As at 31 December 2018, the Group had 4,840 employees. Total employee remuneration, including directors' remuneration and mandatory provident fund contributions amounted to approximately HK$1,194,426,000.

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

CHARGES ON ASSETS

As at 31 December 2018, approximate HK$22,589,000 of the Group's bank deposits was pledged (31 December 2017: approximate HK$14,126,000).

BUSINESS REVIEW

During the reporting period, the Group caught up with the growth trend of enterprises' demand for digital transformation, focused on "cloud + data" and made full use of new technologies such as cloud computing, big data, Internet of Things, artificial intelligence and block chain to accelerate the upgrading of management software products and cloud services. Inspur Enterprise Cloud ERP was taken as the new momentum of enterprise transformation and upgrading, aiming to help customers build intelligent enterprises.

During the reporting period, the Group accelerated its transformation to cloud and launched cloud products such as PS Cloud to provide comprehensive cloud ERP solutions and services for micro, small, medium and large enterprises. At the same time, it focused on "platform + ecology" to comprehensively promote the development of cloud, intelligence and ecology, and to lead the digital transformation of enterprises. At the 2018 China IT User Satisfaction Conference held in January 2019, Inspur Enterprise Cloud ERP won 6 honors including the "First Prize of Product Satisfaction"; at the 2019 China IT Market Annual Conference held in February, Inspur was named as "China Management Software Market's Successful Enterprise of the Year". The Group's management software continued to occupy the first place in the market and its brand and market influence were further enhanced.

I. ERM Software and Cloud Service Business

During the reporting period, the revenue from management software and cloud services amounted to HK$2,107,522,000, up by 22.3% year-on-year. On the one hand, the rapid growth of revenue benefited from the fast development of cloud services, which became the driving force for the Company's revenue increase; on the other hand, the revenue of management software business maintained stable growth, further expanding the scope of industries it covered.

1. Cloud service business

The Group provided comprehensive cloud services to enterprises of different sizes, enabling Inspur's partners and those enterprises to enhance their core competitiveness in the cloud era. During the reporting period, the revenue from the cloud service business grew at a high speed.

During the reporting period, in terms of the large enterprise market, the Company continued to optimize its cloud service platform for large enterprises, namely GS Cloud, in the concepts of interconnection, sharing, refinement and intelligence, to enhance the promotion of products such as financial cloud, human resource cloud, procurement cloud, collaborative cloud, travel cloud, tax management cloud and marketing cloud, and released EA enterprise brain and enterprise intelligent robot EAbot, all of which helped promote the digital transformation of large enterprises.

During the reporting period, in response to the transformation trend of human resources service of enterprises, the Company released a new version of full SaaS human resources cloud (HCM Cloud). As a professional human resources service platform on the cloud, the human resources cloud focused on the integration of business and human resources, further expanding the application scenarios of human resources cloud, and created a total of seven clouds including personnel cloud, payroll cloud, attendance cloud, recruitment clound, appraisal cloud, training cloud, self service cloud, which improved product experience and won the award of China Human Resources Cloud Market's Annual Impact Product. At the same time, according to the characteristics of large and medium-sized enterprises, the Group introduced HCM Cloud PaaS platform, which was featured with inherent cloud architecture, fully autonomous and controllable, and more flexible. The platform focused on the integration of human resources and business of enterprises, and further enhanced its application value. In the future, the Group will continue to strengthen market promotion of the platform, enhance customer experience and expand the scale of users.

During the reporting period, the Company's procurement cloud (iGo Cloud) continuously optimized its internal and external services, constantly improved its sourcing capability, integrated the industrial chain, supervision chain and data chain in the aspects of core issues regarding enterprises' procurement transparency, procurement quality and procurement decision-making, further improved the platform capability, and achieved full coverage of the procurement model. The product attracted many industry benchmark customers such as China Railway and Shanghai Construction Group. At the same time, the Company accelerated its iterative research and development of the product, and continuously expanded its application fields by using cloud intelligence, such as supply chain finance and employee travel, to achieve successful promotion and application in industries like construction, intelligent manufacture of equipment, mining, pharmaceutical and fast-moving consumer goods, etc. The iGo Cloud won the award of "User Preferred Brand" in China IT User Satisfaction Conference.

During the reporting period, the Company further upgraded the intelligent enterprise collaboration cloud platform "Cloud + Intelligence". As a unified portal for enterprise mobile applications, the "Cloud + Intelligence" integrated online and offline back-office business applications, and loaded all enterprise mobile applications into one App to help enterprises improve collaboration efficiency. In response to the personalized demand of large and medium-sized enterprises for "safe customization", the "Cloud + Intelligence" added multi-cloud architecture, personalized customization, extensible dialogue AI platform, intelligent voice chat and other functions, launched a new Internet style UI, comprehensively improved user experience and enterprise collaboration level, and rolled out more than 10 security features. The "Cloud + Intelligence" was awarded the User Recommended Brand of the Year. In terms of application ecology, the Group introduced the ecological applications of many partners such as Weaver, and achieved expanded application scenarios and customer coverage.

During the reporting period, in terms of the small and medium-sized enterprise market, the Company set up a joint venture with Odoo and launched the first open source cloud ERP product, PS Cloud, which included the open source industrial PaaS platform and cloud SaaS applications, featuring in three major aspects of open source, micro-service and SaaS. Currently, 56 standard applications, 800 business components and industry modules as well as 12,000 third-party plugins have been launched on the Company's official website www.mypscloud.com, covering a variety of application scenarios such as collaborative research and development, industrial chain collaboration, intelligent manufacturing and financial sharing. It can provide one-stop solutions and an integrated management platform. The Company will take the PS Cloud platform as its core driving force to accelerate the development of partners, build an open source ecosystem, and help growing enterprises to access to the cloud platform and make digital transformation.

During the reporting period, the Company promoted the establishment of China Open Source Industry PaaS Association, committed to promoting the construction of industrial Internet platforms in an open source model to meet the demand for massive industrial App during the development of domestic industrial Internet and the access of enterprises to cloud. It helped Inspur to be successfully selected as the National Cross-industry and Cross-domain Industrial Internet Platform by the Ministry of Industry and Information Technology, and the PS Cloud was named as the "Excellent Solution for Industrial Internet APP" by the Ministry of Industry and Information Technology. The Group also won honors of 2018 Most Innovative SaaS Product, the User Recommended Brand in 2018 China IT User Satisfaction Survey, and the Innovative Product in China Growing Enterprise Cloud Service Market of the Year.

During the reporting period, in terms of the small and micro enterprise market, the Company rolled out the new version of Inspur E-cloud Online 3.0, interconnecting the sections of finance, business, taxation and finance of an enterprise, and providing small and micro enterprises with one-stop cloud service solutions including cloud accounting, cloud purchase, sale and inventory, cloud outsourced bookkeeping, cloud ordering and cloud e-finance; meanwhile, it cooperated with a number of banks to provide small and micro enterprises with one-stop cloud service involving intelligent fiscal and financial solutions; through continuous iterative optimization, it further improved user experience, and made its services more convenient, intelligent and humanized. Inspur E-cloud Online was successfully selected as "China's Preferred Service Provider for Small and Medium Enterprises" by the Ministry of Industry and Information Technology. Inspur Cloud Accounting won multiple important awards including "2018 Best Product Award for Enterprise Cloud Applications in China's Software and Information Services Industry" and "Micro Enterprise Cloud Service Market's Annual Impact Product". Its business continued to grow at a high speed. Inspur E-cloud will further develop the platform's unique features of linking, mobility, intelligence and security, cooperate with more ecological partners in depth, provide more small and micro enterprises with one-stop cloud services integrating business, finance and tax, help enterprises to access to cloud, and support small and micro enterprises to accelerate their digital transformation.

2. *Management software business*

During the reporting period, through the acquisition and business restructuring of Inspur Tianyuan Communications as well as the restructuring and adjustment of software outsourcing business, the Group's management software business achieved further expansion of industry coverage and customer base. During the reporting period, the management software business witnessed steady revenue growth due to the increase in the contracted amount and overall demand.

During the reporting period, the Group on the one hand continued to expand new customers, and on the other hand moved on to explore and maintain the new needs of existing customers. It promoted the replacement and upgrading of products, strengthened market coordination of various business units, and expanded income scale. The Company fully leveraged its product advantages in group control, financial sharing, intelligent manufacturing, enterprise big data, and network operation support system (OSS) to continuously promote its customers, the large enterprise groups, to innovate in digital transformation and management.

The Group effectively seized the opportunities of the domestic hot spot of shared services, providing five models of accounting reconciliation sharing, reimbursement sharing, standard financial sharing, business-finance integration sharing and comprehensive sharing, respectively, to provide shared service solutions for enterprises of different sizes and types. Inspur's financial sharing products and services integrated Ctrip business travel management, supported electronic invoice reimbursement and electronic accounting document management, and covered comprehensive tax management through new technological means including online reimbursement, electronic imaging, and online approval. Inspur focused on "strengthening financial control through sharing model" to create a new financial control model of "flexible sharing, elaborate control, and integration of business and finance". The financial sharing products can help enterprise groups to strengthen the control of their subordinate operating units vertically and realize the integration of finance and business horizontally, which provided strong technical support for effective supervision and management decisions, and acted as the most effective tool for enterprise groups to implement and manage accounting process and promote financial transformation. Those projects won multiple awards in the 2018 CCID and CCW selection, such as "China Financial Cloud Market's Annual Impact Product" and "Product Satisfaction First Prize".

During the reporting period, the Company launched a new-generation intelligent manufacturing all-in-one solution "Intelligent Manufacturing+", which integrated AI, block chain, edge computing and other new IT technologies. Its business covered the whole business operation chain of enterprises, including: sales, procurement, collaborative planning, product design, intelligent workshop, and the whole business operation chain of intelligent service enterprises; it also released Manufacturing and Operating Management (MOM) products, including cloud center and double-layer application of edge layers, which supported a variety of intelligent services such as automatic product quality detection based on machine vision, predictive maintenance of equipment, and equipment cloud detection. At the same time, the Company actively promoted strategic cooperation, collaboration, sharing, co-creation and win-win principle to provide better intelligent manufacturing services to the manufacturing industry, helping manufacturing enterprises to develop from traditional manufacturing to digital manufacturing, and finally to realize networked intelligent manufacturing across industrial chains. During the reporting period, the Group was rated as the Excellent Service Unit for Intelligent Manufacturing, and its intelligent manufacturing products also won the "Best Solution of the Year for 2018-2019 China's Enterprise informatization Market".

During the reporting period, the "Software Automatic Construction for Intelligent Manufacturing" project filed by the Group was approved as the major project of the national major research and development plan "Key Scientific Issues of Transformative Technology", and other 3 projects including the "Big Data Innovation Application for Large Industrial Enterprises" were shortlisted for the Internet+ Manufacturing Demonstration Project of the Ministry of Industry and Information Technology, all of which indicated the strength and research and development capability of Inspur in terms of industrial Internet and intelligent manufacturing.

During the reporting period, Inspur Tianyuan Communications focused on the software development and services for telecom operators, mainly including the provision of products and services in supporting system software development (OSS business). At present, those products and services have covered the headquarters of China Mobile, China Unicom, China Telecom, and China Tower as well as 31 nationwide provincial subsidiaries of major operators. During the reporting period, the Group's OSS software business achieved steady revenue growth due to stable demand of operators.

II. Internet of Things Solution Business

During the reporting period, the Group's Internet of Things solution business was mainly provided to the grain industry and the communications industry, with the revenue reaching HK$335,094,000, up by 38.6% year on year.

In terms of the grain industry, the Group offered intelligent all-in-one grain solutions based on the Internet of Things to competent grain authorities at all levels and grain depots of large, medium, small and micro sizes. The Company insisted on independent innovation, continuously strengthened independent research and development of core technologies, and integrated new technologies such as the Internet of Things with the grain business. At present, the Intelligent Grain Depot program has been applied to nearly 1,000 grain depots across the country. At the end of December 2018, the Group acquired a 60% equity interest of Zhengzhou Hualiang Technology. It is expected that after the acquisition, the Group will further consolidate its first place in market-share as service provider in the intelligent grain industry. The "China Grain.com" under Zhengzhou Hualiang Technology is a mature professional portal, which integrates functions like B2B trading services, information services and price publishing. It has solid customer base, and provides a sound platform for the Group to develop big data in intelligent agricultural informatization.

With respect to the telecom industry, the Group facilitated its cooperation with China Mobile Internet of Things Company regarding Internet of Things platform during the reporting period. Currently, it has deployed and applied related applications in provincial companies of China Mobile. At the same time, it also has successfully carried out ICT projects based on the Internet of Things for multiple provincial and municipal companies involving in the business with the transportation and energy industries. According to the management requirements of the operators, Tianyuan Communications will further strengthen the provision of end-to-end overall solutions for the Internet of Things equipment, networks, systems and information, centralize the management of core services of the Internet of Things, realize the efficient integration of the information industry and the communication industry, and assist the development of government and enterprise services provided by the operators. With the development of 4G network and the gradual expansion and construction of 5G network, the Group can use cloud computing, big data and artificial intelligence technologies to deeply integrate with the operators' Internet of Things comprehensive connectivity so as to jointly develop the enterprise service market.

BUSINESS PLAN

Inspur was the first to put forward the strategy of boosting the digital transformation of enterprises, and proposed the concept of "digital transformation helps achieve intelligent enterprises". Meanwhile, Inspur has always stood at the forefront of the transformation in the era, continuously making iterative innovations, and providing system and methodology for digital transformation. It can help empower enterprises with cloud and data, establish intelligent brain of enterprises, and build interconnected, sharing, refined and intelligent enterprises. In 2019, the Company will continue to strengthen its transformation to SaaS service business, while consolidating its high-end and industry advantages. The Company will vigorously develop cloud partners, build a cloud ecosystem, compete for small and medium sized enterprise management software and cloud service markets, and further enhance its market share in SaaS services provided to enterprises. In the future, relying on its parent company Inspur Group's full industrial presence in the areas of IaaS-Paas-SaaS and the brand influence of Inspur, the Company will join more partners to establish an industrial Internet ecology to promote enterprises to access to cloud, develop intelligent brain for enterprises with big data and AI, and facilitate the construction of intelligent enterprises. In the foreseeable future, the Group will become a leading manufacturer of enterprise management software and cloud services in China.

DIRECTORS

Mr. Wang Xingshan, aged 54, is the chairman of the Board, expert in special government grants from the State Council, Taishan Scholar (泰山學者), a management accounting advisor of the Ministry of Finance and a member of management accounting leader think-tank in North Asia (北亞管理會計領袖智庫). Mr. Wang graduated in Xi'an Jiaotong University with a Master degree in Computational Mathematics in 1987. In early 1990, Mr. Wang as a visiting scholar conducted research relating to corporate management and software engineering in the Japan Productivity Center. Mr. Wang had worked in several departments of Inspur Group. Mr. Wang has attained over 30 years' experience in the operation and management of the IT industry in China, particularly in the field of software and IT service, and has been devoted to the innovation of ERP technology and innovation of management, which has led the Company to move towards its transformation to the leading cloud service provider in China. As a result of his outstanding achievement, he has been granted various awards of which have been awarded by the State and provincial governments, such as the "Top Ten Software Industry Leader of China", "China Management Institute Award" and "Young and Middle-Aged Expert of Outstanding Contribution of Shandong Province".

Mr. Lee Eric Kong, aged 50, is the chief executive officer ("CEO"), has over 25 years of experience in IT business. He first obtained a Master of Electrical Engineering from Eindhoven University of Technology, Netherlands, in 1993. For about 9 years, Eric has held technical, marketing and business development and business management positions in AT&T Network Systems International and Lucent Technologies in Europe, People's Republic of China ("PRC"), Australia, Philippines and Malaysia. During his time with Lucent Technologies, Eric received full sponsorship from the aforesaid company in 1997 to attend a full-time MBA program of INSEAD in France. Eric later joined Oracle Corporation as client director for the Asia Pacific Enterprise Accounts Division. He joined Inspur in 2004 as investor, co-founder and COO, promoted to President & CEO of the Group's outsourcing start-up in the following year. He successfully built the business from practically zero to one of the PRC's top five outsourcing firm servicing domestic and international markets. He resigned in October 2013 and on 1 August 2017, he was appointed as an executive director, President and Chief Operation Officer of Inspur International, as well as President and Chief Operation Officer of Inspur Genersoft Co., Ltd (a subsidiary of the Inspur International). On 17 August 2018, he was appointed as chief executive director of Inspur International Limited.

Mr. Jin Xiaozhou, Joe, aged 57, has obtained a bachelor degree in Space Physics at Peking University, a master degree in Electrical Engineering at the Institute of Electronics, Chinese Academy of Sciences (中國科學院電子學研究所), a master degree in Electronics, Computer and Systematic Engineering at Boston University. He is currently a general manager of Inspur Worldwide Services Limited (浪潮世科服務有限公司) ("Inspur Worldwide"), a subsidiary of the Company and is in charge of the Company's international outsourcing business. In past years, Mr. Jin had served as the architect, research and development director, principal architect and technical director, etc. at Nets Inc., Fidelity Investment (富達基金), Thomson Financial Services (湯姆森-路透集團金融服務公司) and ONEWORLD Software Solutions. In 2000, Mr. Jin founded DoubleBridge Technologies, Inc., in America and served as one of the founder partners and as vice chief operating officer. He had also served as the president of 北京道達技術有限公司 and as a managing director of DoubleBridge (Hong Kong). Mr. Jin has 30 years of relevant experiences in the I.T. business sector, principally in charge of risk investment, designing and planning, and managing development.

Mr. Dong Hailong, aged 41, a non-executive Director, Mr. Dong graduated from Southwest Jiaotong University with a Bachelor degree in Telecommunication Engineering in 1999. Mr. Dong joined the Company in 2002.

Mr. Wong Lit Chor, Alexis, aged 60, an independent non-executive Director, graduated from University of Toronto, Canada, in 1981 with Bachelor of Arts majoring in economics and commerce and has obtained a master of business administration degree from The Chinese University of Hong Kong in 1987. He has over 30 years of banking, investment, corporate finance and securities dealing experience gained by working as a senior executive in a number of listed local and PRC financial services companies. Mr. Wong is also an independent non-executive director of one company listed on the Main Board of the Stock Exchange of Hong Kong.

Ms. Zhang Ruijun, aged 57, an independent non-executive Director, graduated from the School of Business of Renmin University of China with a PhD degree in management studies in 2002. Ms. Zhang is currently a Professor of Finance and a PhD supervisor in the School of Business of Renmin University of China, and she is engaged in research on IT and Management Integrations of Enterprise Group Control Strategy, Enterprise Group Fund Management and Financial Resources, and Enterprise Risk Management. Several research papers of Ms. Zhang have been published in academic journals in PRC during the recent years, such as Management World (《管理世界》), Accounting Research (《會計研究》), China Soft Science (《中國軟科學》), Finance & Accounting (《財務與會計》), and Economic Theory and Business Management (《經濟理論與經濟管理》).

Mr. Ding Xiangqian, age 57, is currently a supervisor of doctorate degree and a chief manager at Ocean University of China (中國海洋大學). Mr. Ding had previously worked as chief manager of the CAD and Multi-media Research Centre* (CAD與多媒體研究中心) and the Information Engineering Centre* (資訊工程中心) at Ocean University of China, chief manager of academic committee of the Qingdao Internet of Things Association (青島市物聯網協會學術委員會), head of Qingdao Manufacturing Industry Informatization Expert Panel* (青島市製造業信息化專家組), expert for informatization of Qingdao Development Reform Committee* (青島市發改委), Qingdao Technology Bureau* (青島市科技局), Qingdao Economic Information Committee* (青島市經信委) etc. Mr. Ding focuses his research on areas such as software engineering and artificial intelligence, etc. Mr. Ding is very experienced in the area of entrepreneurial informatization service and modern service industry technology. At the same time, Mr. Ding is also an expert of the Key Technology Research and Development Program of the Twelfth Five-Year Expert Panel* ("十二五"科技支撐計畫現代服務業領域總體專家組) and a member of the Informatization of Advanced Manufacturing in Technology Expert Panel* (科技部"十二五"製造業信息化科技工程總體專家組). He had held and participated in over 50 national and provincial lectures, participated in over 30 informatization building projects in large enterprises and has received and obtained 9 provincial technology award and 21 national patent rights. Mr. Ding has also published over 60 academic articles of relevant areas and 3 monographs.

SENIOR MANAGEMENT

Mr. Zhang Yuxin, aged 43, is the chief financial officer, graduated from Northeastern University and obtained his bachelor's degree in accounting in 1999. Mr. Zhang graduated from the Shandong University and obtained his master's degree in business administration in 2013. Prior to his appointment as the CFO of the Company, Mr. Zhang has been working as accounting manager of Inspur Group Limited, manager of the financial department of "Ericsson Inspur Wireless Technology Co., Ltd", general manager of the financial planning department of "Inspur General Software Co., Ltd", and vice president of the Company.

Ms. Chan Wing, aged 48, company secretary of the Company. She is a fellow member of The Hong Kong Institute of Certified Public Accountants, a member of ICAEW and the Chinese Institute of Certified Public Accountants respectively. Ms Chan joined the Group in 2008.

Mr. Zoubo, aged 40, is the *authorised representative and joint company secretary*. Mr. Zou was graduated from Huazhong University of Science and Technology with a bachelor degree in management and law in 2001. Mr. Zou joined the Group in 2006.

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2018.

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

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

The Company has adopted and complied with the principles set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 (for Main Board) of the Listing Rules. In the opinion of the Board, the Company has complied with all the code provision set out in the CG Code throughout the year ended 31 December 2018 with the exception of: Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Partial Directors were unable to attend the annual general meeting as they were obliged to be away for business trips. The Company will improve its meeting scheduling.

THE BOARD

I. the responsibilities of the Board

The Board is the core of corporate governance of the Company. Its major responsibilities are as follows:

(1) to convene general meetings, report to shareholders and implement the resolutions of general meetings;

(2) to review and approve critical projects, such as investment and acquisition, issuance and repurchase of securities, etc;

(3) to review the Company's compliance with the CG Code and disclosure in this report;

(4) to review and approve the Share Option Scheme and other Incentive Scheme;

(5) formulating the profit distribution schemes and loss remedy plans of the Company;

(6) formulating the plans for increasing or decreasing registered capital and the issuance of corporate bonds or other securities as well as the listing scheme of the Company;

(7) deciding on the structure scheme of the special committees of the Board, appointing or dismissing the chairman (convener) of special committees of the Board;

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

II. Composition of the Board

Now the Board comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Wang Xingshan (Chairman of the Board)
Mr. Lee Eric Kong (Chief Executive Officer)
Mr. Jin Xiaozhou, Joe

Non-executive Directors

Mr. Samuel Y. Shen (resigned on 27 March 2018)
Mr. Dong Hailong

Independent non-executive Directors

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

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

Throughout the reporting period, the number of independent non-executive Directors exceeds one-third of the Board. The Company has received annual confirmation of independence from the three Independent Non-Executive Directors in accordance with Rule 3.13 of the Main Board Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

According to the Articles of Association, each Director shall retire by rotation at least once every three years and all the retiring Directors are eligible for re-election at the AGM in that year. At the AGM, three Directors, namely Mr. Dong Hailong, Ms. Zhang Ruijun, and Mr. Wong Lit Chor, Alexis shall be retired by rotation and be eligible for re-election.

According to code provision A.4.3 of the Corporate Governance as set out in Appendix 14 of the Listing Rules, it is recommended that serving more than nine years could be relevant to the determination of a non-executive director's independence. If an independent non-executive Director serves more than nine years, any further appointment of such independent non-executive Director should be subject to a separate resolution to be approved by shareholders.

Mr. Wong Lit Chor, Alexis has been appointed as an independent non-executive Director for more than nine years. The Company has received from Mr. Wong confirmation of independence according to Rule 3.13 of the Listing Rules. Throughout Mr. Wong's directorship with the Company, Mr. Wong has participated in Board meetings to give impartial advice and exercise independent judgement, served on various committees of the Board, but have never engaged in any executive management. Taking into consideration of his independent scope of work in the past years, the Board considers that the long service of Mr. Wong would not affect her exercise of independent judgement and is satisfied that Mr. Wong has the required character, integrity and experience to continue fulfilling the role of an independent non-executive Director. As such, the Directors consider Mr. Wong to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. The Board believes that Mr. Wong's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the presence of Mr. Wong who has over time gained valuable insight into the Group.

III. Board Meeting/General Meeting

For the year ended 31 December 2018, the Company convened five Board meetings and three General Meeting. The following table shows the details of Directors' attendance:

Directors	Attendance/number of Meetings	
	Board Meetings	General Meeting
Mr. Wang Xingshan	5/5	2/3
Mr. Lee Eric Kong	5/5	0/3
Mr. Jin Xiaozhou,Joe	5/5	0/3
Mr. Samuel Y. Shen *	1/1	N/A
Mr. Dong Hailong	5/5	3/3
Mr. Wong Lit Chor, Alexis	5/5	3/3
Ms. Zhang Ruijun	5/5	0/3
Mr. Ding Xiangqian	4/5	0/3

* Mr Samuel Y. Shen resigned on 27 March 2018. Board meeting of the Company was held once and no general meeting was held during his duration.

Directors were given sufficient notice of Board meetings in accordance with the Listing Rules and the Articles of Association. Directors were consulted in advance regarding the agenda of Board meetings. For all other Board meetings, reasonable notices were given. The agenda and other relevant, complete and reliable accompanying materials were sent to the Directors at least three days before each meeting. Each Director is aware of his/her obligation to allocate adequate time to deal with the Company's affairs.

At the meetings of the Board held during the year ended 31 December 2018, the matters dealt with by the Directors include but not limited to the following: formulating the overall development strategy of the Company, considering and approving the Company's 2017 annual report and the 2018 interim report, considering and approving the Company's acquisition, and approving grant of share options and discussing other major matters. The secretary of the Board has recorded the proceedings of each Board meeting by keeping detailed minutes, including all decisions made by the Board together with concerns raised and dissenting views expressed (if any) by the Directors. All minutes are kept by the secretariat of the Board and any relevant files including the agenda, documents and minutes are open for any Directors' inspection.

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

IV. Continuous professional development of directors

(1) Every newly appointed director was given a comprehensive, formal and tailored induction training to ensure that he is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements. The Company has provided all Directors with documents and information aiming at developing and refreshing their professional knowledge and skills, together with other information (including monthly updates) on the development of business, operation, activities and corporate governance of the Company from time to time to assist them to fulfill their responsibilities.

All directors were encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, the Directors received the following training during the year 2018:

Directors	Corporate Governance, regulatory development other relevant topics	Monthly report
Mr. Wang Xingshan	✓	✓
Mr. Lee Eric Kong	✓	✓
Mr. Jin Xiaozhou,Joe	✓	✓
Mr. Samuel Y. Shen (resigned on 27 March 2018)	✓	✓
Mr. Dong Hailong	✓	✓
Mr. Wong Lit Chor, Alexis	✓	✓
Ms. Zhang Ruijun	✓	✓
Mr. Ding Xiangqian	✓	✓

(2) When Directors are asked to express their views on the Company's connected transactions (if any), incentive schemes, internal controls, etc., the Company retains auditors, financial advisers and/or lawyers and other relevant independent professionals to provide independent professional advice to assist the Directors in fulfilling their responsibilities.

(3) With regard to insurance cover in respect of possible legal actions against the Directors when performing their duties, the Board had entered into a "Corporate Liability Insurance" with AIG Insurance Hong Kong Limited.

BOARD COMMITTEES

The Board has set up three specialized committees, namely the audit committee, the remuneration committee and the nomination committee to oversee particular aspects of the Company's affairs. The compositions of these committees are set out below.:

Audit Committee

As at 31 December 2018, the audit committee of the Company comprised three independent non-executive Directors, namely Mr. Wong Lit Chor, Alexis (chairman), Ms. Zhang Ruijun and Mr. Ding Xiangqian.

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting system, risk management systems and internal control procedures, which include:

Relationship with the Company's auditors

(1) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(3) to act as the key representative body for overseeing the Company's relations with external auditor;

(4) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

(5) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

    (iii) significant adjustments resulting from audit;

    (iv) the going concern assumptions and any qualifications;

    (v) compliance with accounting standards; and

    (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(6) Regarding (5) above:-

    (i) Members should liaise with the Board and senior management of the Company and the Audit Committee must meet, at least twice a year, with the Company's auditors; and

    (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, it must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's financial reporting system, risk management and internal control systems

(7) to review the Company's financial controls, and to review the Company's risk management and internal control systems;

(8) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

(9) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(10) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(11) to review the group's financial and accounting policies and practices;

(12) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;

(13) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(14) to report to the Board on the matters in these Terms of Reference;

(15) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action; and

(16) to consider other topics, as defined by the Board;

Please refer to the Terms of Reference and Modus Operandi of the Audit Committee published on the websites of the Stock Exchange and the Company for further details on the roles and functions of the Audit Committee

During the financial year ended 31 December 2018, the Audit Committee held three meetings, at which the Audit Committee:

(1) reviewed the Company's annual financial report and internal control report for the year 2017, and submitted them to the Board for approval;

(2) reviewed the Company's interim financial report of 2018, and submitted it to the Board for approval;

(3) reviewed the Company acquisition proposal、updated continuing connected transactions, and submitted them to the Board for approval;

Details of attendance at the Audit Committee meetings during year 2018 are set out below:

Audit Committee Members	Attendance/number of Meetings
Mr. Wong Lit Chor, Alexis (Chairman)	3/3
Ms. Zhang Ruijun	3/3
Mr. Ding Xiangqian	3/3

Remuneration Committee

As at 31 December 2018, the remuneration committee of the Company comprised one executive Director, namely Mr. Wang Xingshan and two independent non-executive Directors, namely Mr. Wong Lit Chor, Alexis (Chairman) and Ms. Zhang Ruijun.

The major roles and functions of the Remuneration Committee are as follows:

(1) make recommendations to the Board on the policy and structure for the remuneration of the Directors and senior management, and to consider and approve remuneration for the directors and senior management by reference to corporate goals and objectives. The committee shall meet at least once a year if necessary.

(2) as authorized by the Board, draw up proposals for and make recommendations to the Board on the remuneration of directors, and salary of individual executive directors and senior management;

(3) examining the proposed remunerations to the management according to the corporate goals and objectives developed by the Board from time to time;

(4) examining the performance of duties of the Directors and senior management of the Company and to appraise their annual performance;

(5) supervising the implementation of the remuneration system of the Company;

(6) other matters authorized by the Board.

During the financial year ended 31 December 2018, the Remuneration Committee held one meetings to discuss the grant of share options pursuant to the Company's share option scheme, discuss the adoption of new share option scheme, and submit proposals to the Board.

Details of attendance at the Remuneration Committee meetings during year 2018 are set out below:

Remuneration Committee Members	Attendance/number of Meetings
Mr. Wang Xingshan	1/1
Mr. Wong Lit Chor, Alexis (Chairman)	1/1
Ms. Zhang Ruijun	1/1

Nomination Committee

The Board has established a Nomination Committee. As at 31 December 2018, the committee consists of one Executive Director, Mr. Wang Xingshan (Chairman), with two Independent Non-Executive Directors, Ms. Zhang Ruijun and Mr. Wong Lit Chor, Alexis.

The major functions and authority of the Nomination Committee are as follows:

(1) The Nomination Committee is appointed by the Board to, having regard to the nomination policy and board diversity policy of the Company, make recommendations to the Board so as to ensure that all nominations are fair and transparent.

(2) The Nomination Committee is authorized by the Board to make full use of internal resources and intermediary agencies for identifying qualified director candidates at the Company's expense.

(3) The Nomination Committee is authorized by the Board to conduct interviews with prospective candidates for nomination.

(4) The Nomination Committee is authorized by the Board where necessary to seek independent professional advice.

(5) The Nomination Committee shall be provided with sufficient resources to discharge its duties.

Please refer to the Terms of Reference and Mode of Operation of the Nomination Committee published on the websites of the Stock Exchange and the Company for further details on the roles and functions of the Nomination Committee.

Details of attendance at the Nomination Committee meetings during the year 2018 are set out below:

Nomination Committee Members	Attendance/number of Meetings
Mr. Wang Xingshan (Chairman)	1/1
Mr. Wong Lit Chor, Alexis	1/1
Ms. Zhang Ruijun	1/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

To ensure a balance of power and authority, the role of the Chairman is separated from that of the Chief Executive Officer. Currently, the Chairman and the Chief Executive Officer of the Company are Mr. Wang Xingshan and Mr. Lee Eric Kong respectively. The Chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role and for setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda. The Chairman is also responsible for making sure all Directors are properly briefed on issues arising at Board meetings. The Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The Board also comprises Independent Non-Executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted above, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

RESPONSIBILITIES OF DIRECTORS

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31December 2018.

SUPPLY OF AND ACCESS TO INFORMATION

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

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

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

Responsibilities, accountabilities and contributions of the board and management

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

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

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

BOARD DIVERSITY POLICY

The Board adopts the following board diversity policy:

With a view to achieving a sustainable and balanced development, the Company believes increasing diversity of the Board as an essential element in supporting the attainment of its strategic objectives and sustainable development. All the appointments made by the Board will be based on meritocracy, and candidates will be adequately considered with reference to objective criteria, together with the benefit brought to the Board by adoption of board diversity. Selection of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the specific demand for talents of the various stages in the business development and strategic planning of the Company, and also the merits and contribution to be made by the selected candidates.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018.

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the reporting period, no amendment had been made to the Articles of Association.

AUDITORS' REMUNERATION

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

Services rendered	Fee paid/payable HK$'000
Audit services	2,961

INVESTOR RELATIONS

The Company is committed to maintaining good relations with investors. The Company has set up a specialized department with staff to attend to investor relations affairs. The Company actively participates in various investor forums physically or via conference calls, provides investors with the information necessary for them to form their views on the Company's performance and reports investors' feedback to management in a timely manner in order to improve operations and corporate governance of the Company. To promote transparency, the Company has announced its operating performance to shareholders and other stakeholders. These disclosures include: (1) publishing interim and annual reports; (2) holding performance conferences; (3) making press releases; (4) meeting regularly with investors; (5) publishing analysts' reports on the Company; and (6) conducting market consultations.

The Company issues annual report and interim report and dispatches them to the Shareholders. The Company also publishes its announcements, circulars and other information on the website of Hong Kong Stock Exchange (www.hkexnews.hk). To provide more effective channels of communication, the Company updates its website from time to time and releases corporate information on its website when appropriate.

JOINT COMPANY SECRETARIES

Ms. Chan Wing and Mr. Zou Bo were appointed as joint company secretaries of the Company. During the Reporting Period, Ms. Chan Wing and Mr. Zou Bo have attended relevant professional trainings.

DIVIDEND POLICY

In compliance with code provision E.1.5 of the CG Code. it is the policy of the Company, in considering the payments of dividends, to allow shareholders of the Company to participate in the Company's profits, while also ensuring that adequate reserves are retained for future prospects of the Group.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others,

- the general financial condition of the Group;
- the Group's actual and future operations and liquidity position;
- the Group's expected working capital requirements and future expansion plans;
- the Group's debt to equity ratios and the debt level;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the retained earnings and distributable reserves of the Company and each of the members of the Group;
- the shareholders' and the investors' expectation and industry's norm;
- the general market conditions; and
- any other factors that the Board deems appropriate.

Any declaration and payment of dividend shall remain to be determined at the discretion of the Board and subject to the compliance with all applicable laws and regulations and the Company's Articles of Association. The Company will from time to time review the Dividend Policy and may exercise at its absolute and sole discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any specific reporting period.

COMMUNICATIONS WITH SHAREHOLDERS

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

VOTING BY POLL

At the 2018 annual general meeting, the procedures for demanding a poll by the shareholders were incorporated in an annual general meeting circular. The procedures for demanding a poll by shareholders and for conducting a poll were also explained by the chairman at the annual general meeting.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board believes that good corporate governance is a foundation for the long-term development of the Company, and sustainable and healthy risk management and internal control systems are essential for the long-term development and growth of the Company. The Board is responsible for ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems to safeguard the interests of shareholders. During the year, the Company has continuous engaged an external consultant to assist in the establishment of effective risk management systems so as to further strengthen the corporate governance of the Company.

Risk Governance Structure

The Company's risk management structure is designed on a "Three Lines of Defense" model basis, namely, day-to-day operation and control, continuous risk management activities and independent monitoring of internal control activities, all interrelated with one another. The key internal control procedures for each business unit provide clear guidelines through a series of policies and procedures with reference to elements related to governance, risk management and compliance. The company regularly reviews and updates its policies and procedures and provides training to each unit to ensure its effectiveness.

Key policies and procedures of the Company include whistleblowing policy, policies of inside information handling, connected transactions and various operational policies and procedures which provide day to day operational guidelines for requirements within the corporate governance framework.

Risk Management Systems

With reference to the globally recognized risk management framework, COSO ERM and ISO 31000, the Company's risk management system includes activities of determination of targets, identification of risk matters, risk assessment, risk response, risk monitoring and control activities. The system is not a standalone system and is integrated with the current internal control system. The management of different functions and business unit will regularly discuss and exchange market information and respond promptly and appropriately to changes. They are such as changes in business environment and new market risks, etc. The Company's risk management and internal control systems seek to manage and mitigate, but not to eliminate, the impact of main risk types identified on the Group.

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

The Company, through the risk registers, risk assessment questionnaire and workshops, to facilitate all units in identifying, analyzing and assessing the risk events in term of probability of occurrence and impact to the Company in the areas of financial, operational, compliance and environmental aspects. The adequacy of the current risk responses and the related control activities to the identified risks are discussed for improvements. The identified risk events are analyzed and consolidated by the engaged risk consultant for identifying key risks to the Company. These identified key risks and their mitigation measures and controls are discussed and confirmed by the management and reported to the Audit Committee. The identified risks of the Company are classified into 10 categories, details of which are set out on pages 27 to 30 of this report.

The Company has clearly defined its duties and responsibilities of the Board, management, business operating units, and internal audit functions. The Board appoints the Audit Committee to continuously monitor the effectiveness of the Company's risk management and internal control systems. The Audit Committee discusses the reports submitted by the management, approves the nature and extent of the risks that the company is willing to accept in order to achieve the strategic objectives, reviews the adequacy and effectiveness of the existing monitoring and risk management systems, and advises for further improvements. The management ensures adequate resources to support the implementation of the decisions made by the Board and Audit Committee and confirms to the Board on the risk management and internal control systems in respect of their effectiveness, design, implementation and monitoring. During the year, the above risk management and internal control works were properly completed and the board of directors and management confirm the effectiveness of the design, implementation and monitoring of the system.

Internal Control

The internal audit department on a yearly basis conducts independent review of the Company's key risk control and monitoring procedures in accordance with the annual audit plan approved by the Audit Committee. Internal Audit regularly reports the results and recommends areas of improvement to the Audit Committee.

Review of Risk Management and Internal Control System

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

Significant Risks and Risk Momentum of the Company

During the year, the Company has identified and assessed different risk events and evaluated their effectiveness of control and monitoring mechanism in 10 different categories. They are set out in the following table:

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Finance, Economy and Politics	Adverse change in financial, economic and political environments in Mainland China and Hong Kong could have significant impact to the Company's financial performance	– Closely monitor market trend – Continuous monitoring on the direction of government policies and respond in timely manner – Keep a good relationship with relevant consultants to keep up with the market changes – Develop new business strategies and plans by experienced professionals of the Company to minimize the negative impact	Medium	←→ The financial, economic & political outlook in Mainland China and Hong Kong is stable
Employee	Employees are valuable assets of the Company. Staff health and safety issue in workplace, failure in retaining employees and attracting skillful labours from the market will affect the quality of products and services provided by the Company	– Make analysis on the remuneration data available in the market and provide competitive remuneration package to the staff – Develop a comprehensive performance evaluation system – Develop succession procedures for key positions – Provide training (including health and safety) and staff development programme – Actively participate in on-campus job fairs – Develop intern training course and give priority to interns who have completed training in offering job opportunities – Comprehensive insurance coverage for staff	Medium	↑ Risk analysis found that the related risk level has slightly increased

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

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Information Technology	System failure, mistakes or failure in updating the latest technologies in the market may impair the customer confidence in the Company and lose the leading position in the industry which may affect the business sustainability	– Develop and comply with the relevant policies and procedures – Backup database everyday – Request operators to develop a set of disaster recovery plan – Designated team to perform regular repair and maintenance of the systems – Actively participate in industrial seminars/exhibitions – Follow with market trend and industrial study	Low to Medium	←→ The designated team stays alert with the IT security issues and the risk level maintains unchanged
Operation and Management	Inadequate control measures in daily operation, such as underpriced contracts, insufficient project and budgeting control, contract risk and reliance on single distribution channel, etc. may lead to reputational damages and financial loss	– Annual budget would be prepared by relevant departments and finance department hand in hand and approved by management – Submit regular work report to the management for review – Develop approval procedures – Hire employees with relevant experience – Prepare development strategies in short, medium and long term – Actively explore new distribution channels – Seek assistance from relevant professionals, if necessary – Check key control procedures independently by the audit department	Low to Medium	←→ As there is no significant change in business model, the risk level remains unchanged
Natural Disaster	Severe disasters, such as fire, flood, outbreak of infectious diseases, super typhoon, etc., may affect the day-to-day operation of the Company and lead to financial loss	– Establish departmental business continuity plan and arrange the staff to continue their work in alternative site, if necessary – Make regular inspection and maintenance of fire safety facilities and other emergency equipment (such as sand bags used in flooding control) – Adequate insurance coverage	Low to Medium	↑ Due to extreme weather changes caused by global warming, the frequency of natural disasters increases and the risk level of related natural disaster events increases

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Media and Reputation	Inappropriate handling of media promotion, advertising and media enquires may affect the Company's image and reputation	– Designated department closely monitor the news of the Company – Designated team provides prompt responses to media enquiries	Low	←→ Designated team closely monitors on various media channels and handle incidence in the timely manner. The risk level remains unchanged
Energy and Environment	Failure in effectively controlling pollutions (such as noises, gases and technological wastes) from projects of the Company may have negative effect on the environment. Procurement costs increase due to climate changes or environmental policy changes.	– Strictly control pollutants arising from business operation – Promptly handle the complaint – Closely monitor and promptly responses to the changes of government policy	Low	←→ Due to the business nature does not directly discharge pollutants, the risk is not directly related to the daily operations of the Company, so the risk is maintained stable

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

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are software development, cloud services and Internet of Things (IoT).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the five largest customers accounted for approximately 12.18% of the Group's total turnover. The five largest suppliers accounted for approximately 8.39% of the Group's total purchase amounts. In addition, the largest customer accounted for approximately 4.47% of the Group's total turnover while the largest supplier accounted for approximately 3.73% of the Group's total purchases amount.

Except for Inspur Group Limited ("Inspur Corporation"), the major shareholder of the Company, and its subsidiaries (together referred to as "the Inspur Group"), none of the directors, their associates or any shareholders (which, to the knowledge of the directors, own more than 5 % of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers. Sales to and purchases from the Inspur Group amounted to approximately 1.86% and 3.73% respectively of the total sales and total purchases of the Group for the year ended 31 December 2018.

SHARE CAPITAL

Details of movements during the year of the Company's share capital are set out in note 31 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated Income Statement on page 48.

FINAL DIVIDENDS

At the Annual General Meeting ("AGM") of the Company to be held on 6 June 2019 ("Forthcoming AGM"), the Board of Directors (the "Board") will recommend a final dividend of HK$0.04 per share with aggregated amount of HK$45,557,000 (2017: HK$ 0.03 per share) for the year ended 31 December 2018. Subject to the approval of shareholders at the Forthcoming AGM, the final dividend will be payable on 25 June 2019 to shareholders whose name appears on the register of members of the Company on 12 June 2019.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit scheme are set out in note 40 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 42 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Particulars of the Group's related party transactions are set out in note 41 to the consolidated financial statements, certain of which also constitute connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The connected transactions are as follows:

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

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

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

2. On 9 May 2018, the Company entered into a new framework agreement ("New Framework Agreement") with Inspur Group Limited, major shareholder, which integrate the current continuing connected transactions with Inspur Group Limited and its subsidiaries (collectively referred to as "Inspur Group") under five categories of activities which are in line with the current business model of the Group. The major terms set out as following:

A. Supply Transactions

On 9 May 2018, the Company and Inspur Group entered into the Supplemental Agreement,The maximum annual caps under Supply Transactions will not exceed RMB40,000,000、 RMB48,000,000 and RMB 57,600,000 for each of the financial year ended 2018,2019 and 2020 respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 25 June 2018 (the "Circular") and 9 May 2018 announcement.

The aggregate transactions under Supply Transactions for the year ended 31 December 2018 amounted to approximately RMB 38,330,000 (approximately HK$45,404,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2018 and confirmed that the Supply Transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Supply Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

B. Selling Agency Transactions

The Group appoints Inspur Group to act as selling agent in the sale of the products and services of the Group. In return, the Inspur Group will receive a commission of 1% of the total sales value of the products and the services. The maximum annual caps of the value of transactions under Selling Agency Transactions will not exceed RMB 600,000,000、RMB 720,000,000 and RMB 864,000,000 for each of the financial year ended 31 December 2018, 2019 and 2020 respectively. The expected maximum amounts of commissions to be paid by the Group to the Inspur Group will not exceed RMB 6,000,000、RMB 7,200,000 and RMB 8,640,000 for each of the financial year ended 31 December 2018, 2019 and 2020 respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 25 June 2018 (the "Circular") and 9 May 2018 announcement.

The aggregate transactions under Selling Agency Transactions for the year ended 31 December 2018 amounted to RMB 582,930,000 (equivalent to approximately HK$690,513,000) and the related commission amounted to RMB 5,823,000 (equivalent to approximately HK$6,897,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2018 and confirmed that the Selling Agency Transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Selling Agency Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

C. Purchase Transactions

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

The maximum annual caps under supply Transactions will not exceed RMB 72,000,000、RMB 86,400,000 and RMB 103,680,000 for each of the financial year ended 31 December 2018 and 2019 and 2020 respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 25 June 2018 (the "Circular") and 9 May 2018 announcement.

The aggregate transactions under Purchase Transactions for the year ended 31 December 2018 amounted to RMB47,395,000 (equivalent to approximately HK$56,142,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2018 and confirmed that the Purchase Transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Purchase Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

D. Common Services Transactions

The Inspur Group shall provide office, water, heat, electricity and vehicles for use ("Common Services") by the Group. The expenses to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for provision of similar services. The maximum annual amount of the expenses payable to Inspur Group for each of the three years ending 31 December 2018, 2019 and 2020 are RMB 13,310,000,RMB 14,640,000 and RMB 16,100,000 respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 25 June 2018 (the "Circular") and 9 May 2018 announcement.

The use of Common Services for the year ended 31 December 2018 amounted to approximately RMB$8,145,000 (equivalent to approximately HK$9,648,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2018 and confirmed that the Common Services Transactions were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Common Services Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

E. **Lease**

The Group shall provide Beijing office for use ("Leasing") to Inspur Group. The expenses to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for provision of similar services. The maximum annual amount of the expenses payable by Inspur Group for each of the three years ending 31 December 2018,2019,2020 are RMB 13,960,000, RMB 16,700,000 and RMB 17,540,000 respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 25 June 2018 (the "Circular") and 9 May 2018 Announcement.

During the year ended 31 December 2018, the rental Income from Inspur Group under Leasing amounted to approximately RMB13,898,000 (equivalent to approximately HK$16,463,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2018 and confirmed that the Leasing were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Leasing Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

3. The Group shall provide Jinan office for use ("Leasing Services") to Inspur Group. The expenses to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for provision of similar services. The maximum annual amount of the expenses payable by Inspur Group for each of the two years ending 31 December 2018, 2019 are RMB 48,150,000 and RMB 48,150,000 respectively.

Further details of such continuing connected transaction were disclosed in the Announcement dated 28 December 2017.

During the year ended 31 December 2018, the rental Income from Inspur Group under Leasing Services amounted to approximately RMB33,514,000 (equivalent to approximately HK$39,699,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2018 and confirmed that the Leasing Services were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favourable to the Group than terms available to independent third parties who are not connected persons of the Group as defined in the Listing Rules; and (iii) in accordance with the relevant agreement governing the Leasing Services Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

4. During the year ended 31 December 2018, the Group leased properties located in Hong Kong to a fellow subsidiary of the Inspur Group, which generated the rental income of HK $683,064.

5. Profit Guarantee

   The Group signed the Share Purchase Agreement for acquisition of approximately 76% equity interest in OpCo Group with the Vendors (Seller I was Inspur Overseas Investment Ltd; Seller II was Merit Express International Holdings Ltd) on 9 May 2018. The Sell I has agreed to meet the net profit targets RMB72,000,000 for the OpCo Group for the year ended 2018. For the year ended 31 December 2018, the OpCo Group had met the net profit target for the year.

   Further details of such continuing connected transaction were disclosed in the Company's circular dated 25 June 2018 (the "Circular") and 9 May 2018 announcement.

   The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the above connected transactions and continuing connected transactions. In addition, Pursuant to Rule 14A.56 & 14A.57 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

   (i) have been approved by the Directors;

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

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

   (iv) did not exceed the annual cap amounts.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution are set out as below:

	2018 HK$'000
Reserves	2,042,552

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

DIRECTORS

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

As at 31 December 2018, the interests and short positions of the directors and the chief executive and their associates in the shares and underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code contained in the Listing Rules were as follows:

(a) Long positions in the shares of the Company

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

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

Options in the Company

Name of directors	Capacity	Description of equity derivates	Number of underlying shares *(Note)*	Subscription price per share *HK$*
Wang Xingshan	owner	share option	3,600,000*2	3.16
Lee Eric Kong	owner	share option	3,000,000*1	2.06
Lee Eric King	owner	share option	2,800,000*2	3.16
Jin Xiaozhou,Joe	owner	share option	825,000*2	3.16
Wong Lit Chor, Alexis	owner	share option	200,000*2	3.16
Zhang Ruijun	owner	share option	200,000*2	3.16
Ding Xiangqian	owner	share option	200,000*2	3.16

Notes: (1) On 1 December 2017, the share options were granted to director under 2008 Share Option Scheme.

(2) On 16 October 2018, the share options were granted to director under 2008 Share Option Scheme.

Save as disclosed above, as at 31 December 2018, none of the directors or the chief executive or its associates had any interests or short positions in any shares or underlying shares of equity derivatives of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, the following shareholders other than the directors of the Company had notified the Company of relevant interests in the issued capital of the Company.

Long position in shares and underlying shares of the Company

Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Type of Interests	Number of issued ordinary of shares held	Percentage of the issued share capital the Company
Inspur Group Limited	Corporate (Note 1)	621,679,686	54.58%
Inspur Overseas Investment Limited	Beneficial owner (Note 1)	428,278,400	37.60%
Inspur Cloud Computing Investment Limited	Beneficial owner (Note 1)	193,401,286	16.98%
Wang Yu Kun	Beneficial owner	64,896,000	5.69%

Note 1: Inspur Group Limited is taken to be interested in 621,679,686 shares due to its indirect 100% shareholdings in the issued share capital of Inspur Overseas Investment Limited and Inspur Cloud Computing Investment Limited.

As at 31 December 2018, no persons have any other relevant interests or short positions in shares or underlying shares of equity derivatives of the Company.

MANAGEMENT CONTRACTS

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

SHARE OPTIONS

Details of the Company's share option schemes are set out in note 32 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

COMPETING INTEREST

During the year ended 31 December 2018, none of the directors, chief executive, initial management shareholders or its substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, Ms. Zhang Ruijun, Wong Lit Chor, Alexis and Mr Ding Xiangqian. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee. The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting system, risk management systems and internal control procedures.

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

The Group's audited results for the year ended 31 December 2018 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Group has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 31 December 2018, save as:

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

INDEPENDENCE OF INDEPENDENT NONEXECUTIVE DIRECTORS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31 December 2018.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 32 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

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

(i) The register of members will be closed from 3 June 2019 to 6 June 2019 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor1712-1716 room, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 31 May 2019.

(ii) The register of members will be closed from 13 June 2019 to 17 June 2019 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor1712-1716 room, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 12 June 2019.

AUDITOR

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

On behalf of the Board
Wang Xingshan
CHAIRMAN

18th March 2019

Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Inspur International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 147, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of software development contracts	
We identified revenue recognition in connection with software development contracts as a key audit matter due to management judgments required in the estimation of the outcome and the progress towards complete satisfaction of software development work. Revenue in connection with software development contracts is recognised by reference to the progress towards complete satisfaction of the relevant performance obligation at the end of the reporting period, which is measured based on the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. Notwithstanding that management reviews and revises the estimates of contract revenue for the software development contracts as the contract progresses, the actual outcome of the contract in terms of its total revenue may be higher or lower than the estimations and this will affect the revenue and profit recognised. Details relating to the Group's revenue arising from software development contracts are set out in Note 6 to the consolidated financial statements.	Our procedures in relation to revenue recognition of software development contracts included: • Evaluating the key controls over the preparation of estimated total contract costs and determination of stage of completion relating to the software development contracts; • Interviewing the project managers of selected software development projects, on a sample basis, to obtain an understanding of the contract work status and evaluating the reasonableness of estimated total contract costs; • Testing, on a sample basis, the total contract sum, the estimated total contract costs and contract costs incurred for the work performed to date against the supporting documents; and • Checking the computation of the progress towards complete satisfaction of the relevant performance obligation based on contract costs incurred for the work performed to date relative to the estimated total contract costs and checking whether contract revenue was recognised properly based on the progress towards complete satisfaction of the relevant performance obligation.

INDEPENDENT AUDITOR'S REPORT (continued)

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified valuation of investment properties as a key audit matter due to subjective judgments and estimates required in determining the fair value. As at 31 December 2018, the Group's investment properties which comprised the office premises located in Jinan, Beijing, and Hong Kong were stated at fair value of HK$826.7 million. The Group's investment properties located in Jinan and Beijing, accounting for approximately 96.5% of the carrying amount of the investment properties, are measured by the directors of the Company using the fair value model based on a valuation performed by a firm of professional valuer (the "Valuer"). In determining the fair value of the investment properties, the Valuer has applied an income capitalisation approach which involves, inter-alia, certain estimates, including appropriate term yield, reversionary yield, and market rent of comparable properties. Details relating to the Group's investment properties are set out in Note 17 to the consolidated financial statements.	Our procedures in relation to the valuation of investment properties included: • Discussing with management to understand its plan on the use and valuation process of the investment properties; • Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work; and • Engaging our internal valuation expert to assist evaluating the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industries; the appropriateness of the Valuer's valuation approach against the industry norms; and the accuracy and relevance of key data inputs underpinning the valuation, such as rental income, term of existing leases, by comparing to supporting documents.

INDEPENDENT AUDITOR'S REPORT (continued)

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yu Kin Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000 (Restated)
Revenue	6	**2,442,616**	1,965,150
Cost of sales		**(1,503,852)**	(1,268,080)
Gross profit		**938,764**	697,070
Other income	8	**190,493**	172,099
Other gains and losses	8	**5,964**	8
Impairment losses, net of reversal	9	**(7,235)**	—
Administrative expenses		**(530,340)**	(473,008)
Selling and distribution expenses		**(381,565)**	(265,367)
Financial costs		**(13,743)**	(5,275)
Change in fair value of investment properties	17	**12,336**	18,016
Share of profit of an associate		**191,287**	37,849
Share of (loss) profit of a joint venture		**(42,842)**	2,772
Profit before tax		**363,119**	184,164
Income tax expenses	10	**(18,672)**	(23,267)
Profit for the year	11	**344,447**	160,897
Profit for the year attributable to owners of the Company		**324,030**	139,201
Profit for the year attributable to non-controlling interests		**20,417**	21,696
Earnings per share	15		
– Basic (HK cents)		**29.09**	13.15
– Diluted (HK cents)		**29.01**	13.05

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000 (Restated)
Profit for the year	**344,447**	160,897
Other comprehensive income (expense):		
Items that will not be reclassified to profit or loss:		
Fair value gain on investment in an equity instrument at fair value through other comprehensive income ("FVTOCI")	**6,885**	—
Deferred tax on revaluation upon equity instrument at FVTOCI	**(1,721)**	—
Gain on revaluation upon transfer from property, plant and equipment to investment properties	**55,272**	1,688
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	**(32,647)**	(390)
Share of other comprehensive (expense) income of an associate and a joint venture	**(20,035)**	20,953
Exchange differences arising on translation to presentation currency	**(35,914)**	91,829
	(28,160)	114,080
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(45,578)**	(7,208)
	(45,578)	(7,208)
Other comprehensive (expense) income for the year, net of income tax	**(73,738)**	106,872
Total comprehensive income for the year	**270,709**	267,769
Total comprehensive income for the year attributable to:		
– Owners of the Company	**242,429**	262,585
– Non-controlling interests	**28,280**	5,184
	270,709	267,769

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	31 December 2018 HK$'000	31 December 2017 HK$'000 (Restated)	1 January 2017 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	16	**505,430**	733,940	725,194
Investment properties	17	**826,697**	567,920	506,568
Prepaid lease payments	18	**56,773**	95,611	95,117
Other intangible assets	19	**19,986**	3,416	4,075
Available-for-sale ("AFS") investment		**—**	21,582	20,067
Equity instrument at FVTOCI	20	**40,849**	—	—
Interest in an associate	21	**299,715**	150,116	102,926
Interest in a joint venture	22	**96,796**	145,558	131,174
Advance payment for interest in a subsidiary		**19,358**	—	—
Deferred tax assets	35	**—**	3,121	1,408
		1,865,604	1,721,264	1,586,529
Current assets				
Inventories	23	**16,194**	12,586	8,294
Trade and bills receivables	24	**281,149**	314,984	366,734
Debt instruments at FVTOCI		**32,129**	—	—
Prepaid lease payments	18	**1,445**	2,329	2,259
Prepayments, deposits and other receivables		**76,556**	99,272	114,695
Amounts due from customers for contract work	25	**—**	96,896	62,469
Contract assets	26	**191,885**	—	—
Financial assets at fair value through profit or loss ("FVTPL")		**34**	35	50
Entrusted loan receivables		**—**	—	326,942
Amount due from ultimate holding company	29	**5,368**	8,198	8,235
Amounts due from fellow subsidiaries	29	**323,562**	200,293	220,577
Pledged bank deposits	27	**22,589**	14,126	18,449
Bank balances and cash	27	**865,181**	1,391,022	915,521
		1,816,092	2,139,741	2,044,225
Current liabilities				
Trade payables	28	**180,653**	182,482	214,160
Other payables, deposits received and accrued expenses		**482,274**	560,970	597,239
Amounts due to customers for contract work	25	**—**	392,528	373,343
Contract liabilities	26	**511,281**	—	—
Amount due to ultimate holding company	30	**1,079**	2,952	25,949
Amounts due to fellow subsidiaries	30	**76,132**	585,643	63,469
Deferred income - government grants	33	**45,317**	70,280	49,753
Tax liability		**20,986**	21,312	15,277
Bank loan		**—**	24,020	23,878
		1,317,722	1,840,187	1,363,068
Net current assets		**498,370**	299,554	681,157
Total assets less current liabilities		**2,363,974**	2,020,818	2,267,686

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	31 December 2018 HK$'000	31 December 2017 HK$'000 (Restated)	1 January 2017 HK$'000 (Restated)
Non-current liabilities				
Deferred income - government grants	33	**79,307**	13,446	21,682
Deferred tax liabilities	34	**231,570**	204,346	187,811
		310,877	217,792	209,493
		2,053,097	1,803,026	2,058,193
Capital and reserves				
Share capital	31	**11,389**	9,527	9,015
Reserves		**2,042,552**	1,891,956	1,856,962
Equity attributable to owners of the Company		**2,053,941**	1,901,483	1,865,977
Non-controlling interests		**(844)**	(98,457)	192,216
Total equity		**2,053,097**	1,803,026	2,058,193

The consolidated financial statements on pages 48 to 147 were approved and authorised for issue by the Board of Directors on 18 March 2019 and are signed on its behalf by:

Wang Xingshan
DIRECTOR

Dong Hailong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (note a)	Special reserve HK$'000 (note b)	Share option reserve HK$'000	Translation reserve HK$'000	Revaluation reserve HK$'000	Merger reverse HK$'000	Retained profits HK$'000	Sub total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 31 December 2016	9,015	953,077	(2,634)	92	61,170	16,867	70,674	–	626,070	1,734,331	260	1,734,591
Adjustments (Note 2)	–	–	(26,800)	–	–	(12,328)	–	310,473	(139,699)	131,646	191,956	323,602
At 1 January 2017 (restated)	9,015	953,077	(29,434)	92	61,170	4,539	70,674	310,473	486,371	1,865,977	192,216	2,058,193
Profit for the year	–	–	–	–	–	–	–	–	139,201	139,201	21,696	160,897
Other comprehensive income (expense)	–	–	–	–	–	120,553	2,831	–	–	123,384	(16,512)	106,872
Total comprehensive income for the year	–	–	–	–	–	120,553	2,831	–	139,201	262,585	5,184	267,769
Contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	–	7,293	7,293
Issuance of shares upon exercise of share options	512	81,354	–	–	–	–	–	–	–	81,866	–	81,866
Dividend paid (Note 14)	–	–	–	–	–	–	–	–	(27,046)	(27,046)	–	(27,046)
Forfeiture of options (Note 32)	–	–	–	–	(1,006)	–	–	–	1,006	–	–	–
Cancellation of share options (Note 32)	–	–	–	–	(84,406)	–	–	–	84,406	–	–	–
Recognition of equity-settled share-based payments (Note 32)	–	–	–	–	33,669	–	–	–	–	33,669	–	33,669
Consideration for acquiring subsidiaries under common control	–	–	(102,763)	–	–	–	–	(294,237)	102,717	(294,283)	(282,704)	(576,987)
Dividends paid by a subsidiary of Popular (Note 14)	–	–	–	–	–	–	–	–	(21,285)	(21,285)	(20,446)	(41,731)
	512	81,354	(102,763)	–	(51,743)	–	–	(294,237)	139,798	(227,079)	(295,857)	(522,936)
At 31 December 2017 (restated)	9,527	1,034,431	(132,197)	92	9,427	125,092	73,505	16,236	765,370	1,901,483	(98,457)	1,803,026
At 31 December 2017 (restated)	9,527	1,034,431	(132,197)	92	9,427	125,092	73,505	16,236	765,370	1,901,483	(98,457)	1,803,026
Effect arising from initial application of HKFRS 9 (Note 3)	–	–	–	–	–	–	10,890	–	10,412	21,302	(2,124)	19,178
At 1 January 2018 (restated)	9,527	1,034,431	(132,197)	92	9,427	125,092	84,395	16,236	775,782	1,922,785	(100,581)	1,822,204
Profit for the year	–	–	–	–	–	–	–	–	324,030	324,030	20,417	344,447
Other comprehensive (expense) income	–	–	–	–	–	(104,033)	22,432	–	–	(81,601)	7,863	(73,738)
Total comprehensive (expense) income for the year	–	–	–	–	–	(104,033)	22,432	–	324,030	242,429	28,280	270,709
Contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	–	26,722	26,722
Consideration for acquiring subsidiaries under common control	1,862	526,902	(260,349)	–	–	–	–	(397,033)	(990)	(129,608)	44,735	(84,873)
Dividend paid (Note 14)	–	–	–	–	–	–	–	–	(28,582)	(28,582)	–	(28,582)
Recognition of equity-settled share-based payments (Note 32)	–	–	–	–	46,917	–	–	–	–	46,917	–	46,917
	1,862	526,902	(260,349)	–	46,917	–	–	(397,033)	(29,572)	(111,273)	71,457	(39,816)
At 31 December 2018	11,389	1,561,333	(392,546)	92	56,344	21,059	106,827	(380,797)	1,070,240	2,053,941	(844)	2,053,097

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000 (Restated)
OPERATING ACTIVITIES		
Profit for the year	344,447	160,897
Adjustments for:		
Income tax	18,672	23,267
Share of profit of an associate	(191,287)	(37,849)
Share of loss (profit) of a joint venture	42,842	(2,772)
Interest income on entrusted loan receivables	—	(4,036)
Interest income on bank deposits	(2,152)	(22,866)
Interest income on financial assets at FVTPL	(22,615)	—
Financial costs	13,743	5,275
Change in fair value of investment properties	(12,336)	(18,016)
Dividend income from AFS investment	—	(1,314)
Depreciation of property, plant and equipment	55,972	38,201
Amortisation of prepaid lease payments	2,297	2,237
Amortisation of other intangible assets	668	656
Net (gain) loss on disposal and written off of property, plant and equipment	(131)	38
(Reversal of) loss allowance for trade and other debts	(766)	11,703
Government subsidies and grants	(26,972)	(14,040)
Recognition of equity-settled share-based payments	46,917	33,669
Impairment loss on amounts due from customers for contract work	—	2,691
Impairment loss on contract assets	8,001	—
Fair value change on financial assets at FVTPL	—	14
Operating cash flows before movements in working capital	277,300	177,755
(Increase) decrease in inventories	(4,432)	359
Decrease in trade and bills receivables	15,755	55,766
Increase in debt instruments at FVTOCI	(24,675)	—
Decrease in prepayments, deposits and other receivables	20,396	21,884
Increase in amounts due from customers for contract work	—	(30,620)
Increase in contract assets	(104,271)	—
Increase in amounts due from fellow subsidiaries	(140,664)	(59,973)
Decrease (increase) in amount due from ultimate holding company	3,304	(193)
Increase (decrease) in trade and bills payables	7,937	(38,057)
Increase (decrease) in other payables, deposits received and accrued expenses	108,846	(85,605)
Increase in amounts due to customers for contract work	—	3,684
Increase in contract liabilities	15,760	—
Increase in amounts due to fellow subsidiaries	56,966	38,919
Decrease in amount due to ultimate holding company	(237)	(11,136)
Increase in deferred income	42,998	12,535
Cash generated from operations	274,983	85,318
Income taxes paid	(15,121)	(8,308)
NET CASH FROM OPERATING ACTIVITIES	259,862	77,010

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 HK$'000	2017 HK$'000 (Restated)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(54,432)	(6,757)
Proceeds from disposal of property, plant and equipment		1,242	386
Repayment of entrusted loans and related interest received from a fellow subsidiary		—	341,621
Interest received		2,152	22,866
Interest income on financial assets at FVTPL		22,615	—
Withdrawal of pledged bank deposits		4,250	12,711
Placement of pledged bank deposits		(13,148)	(8,030)
Dividend received from AFS investment		—	1,314
Dividend received from an associate		27,574	—
Advance to fellow subsidiaries		(51,591)	(48,895)
Repayment from fellow subsidiaries		53,223	135,140
Advance to ultimate holding company		(801)	—
Repayment from ultimate holding company		—	295
Acquisition of a subsidiary		—	(4,796)
Advance payment for interest in a subsidiary		(20,137)	—
Research and development expenditures		(18,090)	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(47,143)	445,855
FINANCING ACTIVITIES			
Proceeds from exercise of share options		—	81,866
Dividend paid to ordinary shareholders		(28,582)	(27,046)
Dividend paid to former shareholders		—	(41,731)
Capital injection from other investors of a subsidiary		26,722	7,293
Acquisition of partial interest in a subsidiary		(84,873)	(282,751)
Net cash outflow on merger of subsidiaries	38	(548,407)	(294,237)
Repayment to ultimate holding company		(1,551)	(11,988)
Repayment to fellow subsidiaries		(1,976)	457,810
Repayment to bank loan		(23,691)	—
Financial costs		(13,743)	(5,275)
NET CASH USED IN FINANCING ACTIVITIES		(676,101)	(116,059)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(463,382)	406,806
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,391,022	915,521
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(62,459)	68,695
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash		865,181	1,391,022

1. GENERAL

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

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

The Company is an investment holding company. The principal activities of the subsidiaries (together with the Company, referred to as the "Group") are engaging in Sales of IT peripherals and software and software development and other software services.

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

On 17 July 2018, Inspur Electronics Limited ("Inspur Electronics"), a wholly-owned subsidiary of the Company, acquired the entire issued share capital of Popular Vision Limited ("Popular") and its subsidiaries from Inspur Overseas for a total consideration of HK$951,988,000 (equivalent to approximately RMB 770,387,200), satisfied by (i) issuing 139,800,400 new shares of HK$0.01 each at an issue price of HK$2.65 per share to Inspur Overseas; and (ii) assumption of outstanding loan of RMB 470,587,000 owed by Tianyuan Communications System Co., Ltd ("Tianyuan Communications") to affiliates of Inspur Overseas and acquired 51% of the issued share capital of Depot Wealth Limited ("Depot Wealth") and its subsidiaries from Merit Express International Holdings Limited ("Merit Express") for a total consideration of HK$216,166,000 (equivalent to approximately RMB 174,930,000), satisfied by (i) issuing 46,384,000 new share of HK$0.01 each at an issue price of HK$2.65 per share to Merit Express; and (ii) cash of RMB 75,460,000. Popular and Depot Wealth indirectly holds 51% and 49% equity interests, respectively, in Tianyuan Communications and its subsidiaries (Collectively referred to "Tianyuan Communications Group").

The Group's acquisition of Tianyuan Communications is considered to be a business combination under common control as the Group and Popular are both controlled by Inspur Overseas. As such, this acquisition is accounted for by applying the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG 5") as if Tianyuan Communications have always been operated by the Group.

In applying AG 5, the Company's consolidated statement of financial position as at 31 December 2017 and 1 January 2017 has been restated to include the assets and liabilities of Tianyuan Communications Group as if they were within the Group on these respective dates (see below for the financial impacts). The Company's consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2017 have also been restated to include the financial performance, changes in equity and cash flows of Tianyuan Communications Group as if they were within the Group since 1 January 2017.

Details of the acquisition of Tianyuan Communications are set out in Note 35.

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

The effects of the application of merger accounting on the consolidated statement of profit or loss for the year ended 31 December 2017 are as follows:

	For the year ended 31 December 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	For the year ended 31 December 2017 as restated HK$'000
Revenue	1,317,951	647,199	1,965,150
Cost of sales	(886,279)	(381,801)	(1,268,080)
Gross profit	431,672	265,398	697,070
Other income	136,334	35,765	172,099
Other gains and losses	36	(28)	8
Administrative expenses	(298,594)	(174,414)	(473,008)
Selling and distribution expenses	(200,955)	(64,412)	(265,367)
Change in fair value of investment properties	18,016	—	18,016
Share of profit of an associate	37,849	—	37,849
Share of profit of a joint venture	2,772	—	2,772
Financial costs	—	(5,275)	(5,275)
Profit before tax	127,130	57,034	184,164
Income tax expenses	(17,561)	(5,706)	(23,267)
Profit for the year	109,569	51,328	160,897
Profit for the year attributable to owners of the Company	113,051	26,150	139,201
(Loss) profit for the year attributable to non-controlling interests	(3,482)	25,178	21,696
Earnings per share			
– Basic (HK cents)	12.30	0.85	13.15
– Diluted (HK cents)	12.20	0.85	13.05

The effects of the application of merger accounting on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 are as follows:

	For the year ended 31 December 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	For the year ended 31 December 2017 as restated HK$'000
Profit for the year	109,569	51,328	160,897
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Gain on revaluation upon transfer from property, plant and equipment to investment properties	1,688	—	1,688
Deferred tax on revaluation upon transfer from property,plant and equipment to investment properties	(390)	—	(390)
Share of other comprehensive (expense) income of an associate and a joint venture	20,953	—	20,953
Exchange differences arising on translation to presentation currency	126,300	(34,471)	91,829
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	(7,208)	—	(7,208)
Other comprehensive (expense) income for the year, net of income tax	141,343	(34,471)	106,872
Total comprehensive income for the year	250,912	16,857	267,769
Profit attributable to owners of the Company			
– Owners of the Company	254,216	8,369	262,585
– Non-controlling interests	(3,304)	8,488	5,184

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

The effects of the application of merger accounting on the consolidated statement of financial position as at 1 January 2017 and 31 December 2017 are summarised below:

	As at 1 January 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	As at 1 January 2017 as restated HK$'000
Non-current assets			
Property, plant and equipment	312,869	412,325	725,194
Investment properties	506,568	—	506,568
Prepaid lease payments	32,447	62,670	95,117
Other intangible assets	—	4,075	4,075
AFS investment	20,067	—	20,067
Interest in an associate	102,926	—	102,926
Interest in a joint venture	131,174	—	131,174
Deferred tax assets	—	1,408	1,408
Current assets			
Inventories	8,294	—	8,294
Trade and bills receivables	160,784	205,950	366,734
Prepaid lease payments	818	1,441	2,259
Prepayments, deposits and other receivables	78,806	35,889	114,695
Amounts due from customers for contract work	46,284	16,185	62,469
Financial assets at FVTPL	—	50	50
Entrusted loan receivables	326,942	—	326,942
Amount due from ultimate holding company	295	7,940	8,235
Amounts due from fellow subsidiaries	58,459	162,118	220,577
Pledged bank deposits	18,449	—	18,449
Bank balances and cash	852,975	62,546	915,521
Current liabilities			
Trade payables	96,184	117,976	214,160
Other payables, deposits received and accrued expenses	479,857	117,382	597,239
Amounts due to customers for contract work	188,819	184,524	373,343
Amount due to ultimate holding company	13,409	12,540	25,949
Amounts due to fellow subsidiaries	27,855	35,614	63,469
Deferred income - government grants	49,753	—	49,753
Tax liability	12,852	2,425	15,277
Bank loan	—	23,878	23,878
Non-current liabilities			
Deferred income - government grants	12,467	9,215	21,682
Deferred tax liabilities	42,370	145,441	187,811
Total net assets	1,734,591	323,602	2,058,193
Equity attributable to owners of the company	1,734,331	131,646	1,865,977
Non-controlling interests	260	191,956	192,216
Total equity	1,734,591	323,602	2,058,193

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

	As at 31 December 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	As at 31 December 2017 as restated HK$'000
Non-current assets			
Property, plant and equipment	323,331	410,609	733,940
Investment properties	567,920	—	567,920
Prepaid lease payments	34,017	61,594	95,611
Other intangible assets	—	3,416	3,416
AFS investment	21,582	—	21,582
Interest in an associate	150,116	—	150,116
Interest in a joint venture	145,558	—	145,558
Deferred tax assets	—	3,121	3,121
Current assets			
Inventories	12,586	—	12,586
Trade and bills receivables	159,209	155,775	314,984
Prepaid lease payments	880	1,449	2,329
Prepayments, deposits and other receivables	73,720	25,552	99,272
Amounts due from customers for contract work	86,283	10,613	96,896
Financial assets at FVTPL	—	35	35
Amount due from ultimate holding company	1,429	6,769	8,198
Amounts due from fellow subsidiaries	115,106	85,187	200,293
Pledged bank deposits	14,126	—	14,126
Bank balances and cash	1,350,777	40,245	1,391,022
Current liabilities			
Trade payables	114,589	67,893	182,482
Other payables, deposits received and accrued expenses	439,642	121,328	560,970
Amounts due to customers for contract work	242,498	150,030	392,528
Amount due to ultimate holding company	2,952	—	2,952
Amounts due to fellow subsidiaries	27,349	558,294	585,643
Deferred income - government grants	70,280	—	70,280
Tax liability	20,174	1,138	21,312
Bank loan	—	24,020	24,020
Non-current liabilities			
Deferred income - government grants	5,699	7,747	13,446
Deferred tax liabilities	52,171	152,175	204,346
Total net assets	2,081,286	(278,260)	1,803,026
Equity attributable to owners of the company	2,077,037	(175,554)	1,901,483
Non-controlling interests	4,249	(102,706)	(98,457)
Total equity	2,081,286	(278,260)	1,803,026

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

The effects of the application of merger accounting on the consolidated statement of cash flows for the year ended 31 December 2017 are as follows:

	For the year ended 31 December 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	For the year ended 31 December 2017 as restated HK$'000
OPERATING ACTIVITIES			
Profit for the year	109,569	51,328	160,897
Adjustments for:			
Income tax	17,561	5,706	23,267
Share of profit of an associate	(37,849)	—	(37,849)
Share of profit of a joint venture	(2,772)	—	(2,772)
Interest income on entrusted loan receivables	(4,036)	—	(4,036)
Interest income on bank deposits	(22,577)	(289)	(22,866)
Financial costs	—	5,275	5,275
Change in fair value of investment properties	(18,016)	—	(18,016)
Dividend income from AFS investment	(1,314)	—	(1,314)
Depreciation of property, plant and equipment	25,727	12,474	38,201
Amortisation of prepaid lease payments	845	1,392	2,237
Amortisation of other intangible assets	—	656	656
Net (gain) loss on disposal and written off of property, plant and equipment	(210)	248	38
Loss allowance for trade and other debts	10,465	1,238	11,703
Government subsidies and grants	(9,667)	(4,373)	(14,040)
Recognition of equity-settled share-based payments	33,669	—	33,669
Impairment loss on amounts due from customers for contract work	1,015	1,676	2,691
Fair value change on financial assets at FVTPL	—	14	14

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

	For the year ended 31 December 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	For the year ended 31 December 2017 as restated HK$'000
Operating cash flows before movements in working capital	102,410	75,345	177,755
Decrease in inventories	359	—	359
Decrease in trade and bills receivables	6,417	49,349	55,766
Decrease in prepayments, deposits and other receivables	7,084	14,800	21,884
(Increase) decrease in amounts due from customers for contract work	(36,064)	5,444	(30,620)
Increase in amounts due from fellow subsidiaries	(49,939)	(10,034)	(59,973)
(Increase) decrease in amount due from ultimate holding company	(1,362)	1,169	(193)
Increase (Decrease) in trade and bills payables	10,701	(48,758)	(38,057)
(Decrease) increase in other payables, deposits received and accrued expenses	(88,723)	3,118	(85,605)
Increase (decrease) in amounts due to customers for contract work	37,855	(34,171)	3,684
Increase in amounts due to fellow subsidiaries	932	37,987	38,919
Increase (decrease) in amount due to ultimate holding company	976	(12,112)	(11,136)
Increase (decrease) in deferred income	18,369	(5,834)	12,535
Cash generated from operations	9,015	76,303	85,318
Income taxes paid	(4,307)	(4,001)	(8,308)
NET CASH FROM OPERATING ACTIVITIES	4,708	72,302	77,010

2. MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

	For the year ended 31 December 2017 as previously reported HK$'000	Adjustments on merger accounting HK$'000	For the year ended 31 December 2017 as restated HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(1,027)	(5,730)	(6,757)
Proceeds from disposal of property, plant and equipment	420	(34)	386
Repayment of entrusted loans and related interest received from a fellow subsidiary	341,621	—	341,621
Interest received	22,577	289	22,866
Withdrawal of pledged bank deposits	12,711	—	12,711
Placement of pledged bank deposits	(8,030)	—	(8,030)
Dividend received from AFS investment	1,314	—	1,314
Advance to fellow subsidiaries	(48,639)	(256)	(48,895)
Repayment from fellow subsidiaries	48,427	86,713	135,140
Repayment from ultimate holding company	295	—	295
Acquisition of a subsidiary	(4,796)	—	(4,796)
NET CASH FROM INVESTING ACTIVITIES	364,873	(80,982)	(445,855)
FINANCING ACTIVITIES			
Proceeds from exercise of share options	81,866	—	81,866
Dividend paid to ordinary shareholders	(27,046)	—	(27,046)
Dividend paid to former shareholders	—	(41,731)	(41,731)
Capital injection from other investors of a subsidiary	7,293	—	7,293
Repayment to ultimate holding company	(11,988)	—	(11,988)
Repayment to fellow subsidiaries	(3,436)	461,246	457,810
Net cash outflow on merger of subsidiaries	—	(294,237)	(294,237)
Acquisition of partial interest in a subsidiary	—	(282,751)	(282,751)
Financial costs	—	(5,275)	(5,275)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	46,689	(162,748)	(116,059)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	416,270	(9,464)	406,806
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	852,975	62,546	915,521
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	81,532	(12,837)	68,695
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash	1,350,777	40,245	1,391,022

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

3.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard 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 HKAS 18, HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of IT peripherals and software
- Software development
- Other software services

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 6 and 4 respectively.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

3.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15

There was no material impact of transition to HKFRS 15 on the retained earnings at 1 January 2018

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts restated under merger accounting at 31 December 2017 HK$'000	Reclassification HK$'000	**Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000**
Current assets			
Amounts due from customers for contract work	96,896	(96,896)	**—**
Contract assets	—	96,896	**96,896**
Current liabilities			
Other payables, deposits received and accrued expenses	560,970	(130,727)	**430,243**
Amounts due to customers for contract work	392,528	(392,528)	**—**
Contract liabilities	—	523,255	**523,255**

* The amounts in this column are before the adjustments from the application of HKFRS 9.

In relation to software development contracts previously accounted under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. All of amounts due from/to customers for contract work were reclassified to contract assets and contract liabilities, respectively.

As at 1 January 2018, amounts due from customers for contract work of HK$96,896,000 included in amounts due from customers for contract work were reclassified to contract assets, advances from customers of HK$130,727,000 and amounts due to customers for contract work of HK$392,528,000 included in other payables, deposits received and accrued expenses and amounts due to customers for contract work were reclassified to contract liabilities.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

3.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
Current assets			
Amounts due from customers for contract work	—	191,885	191,885
Contract assets	191,885	(191,885)	—
Current liabilities			
Other payables, deposits received and accrued expenses	482,274	33,157	515,431
Amounts due to customers for contract work	—	478,124	478,124
Contract liabilities	511,281	(511,281)	—

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

3.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the consolidated statement of cash flows

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
Cash flows from operating activities			
Increase in amounts due from customers for contract work	—	(104,271)	(104,271)
Increase in contract assets	(104,271)	104,271	—
Increase in other payables, deposits received and accrued expenses	108,846	103,527	212,373
Decrease in amounts due to customers for contract work	—	(87,767)	(87,767)
Increase in contract liabilities	15,760	(15,760)	—

3.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, contract assets and lease receivables.

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 4.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

3.2 HKFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	AFS investment HK$'000	Equity, instrument at FVTOCI HK$'000	Contract assets HK$'000	Prepayments deposits and other receivables HK$'000	Trade and bills receivables HK$'000	Debt instruments at FVTOCI HK$'000	Deferred tax liabilities HK$'000	Revaluation reserve HK$'000	Retained profits HK$'000	Non-controlling interests HK$'000
Closing balance restated under merger accounting at 31 December 2017 - HKAS 39*		21,582	–	96,896	99,272	314,984	–	204,346	73,505	765,370	(98,457)
Effect arising from initial application of HKFRS 9:											
Reclassification											
From AFS investment	(a)	(21,582)	21,582	–	–	–	–	–	–	–	–
From trade and bills receivables	(b)	–	–	–	–	(8,868)	8,868	–	–	–	–
Remeasurement											
Impairment under ECL model	(c)	–	–	(238)	2,146	6,380	–	–	–	10,412	(2,124)
From cost less impairment to fair value	(a)	–	14,520	–	–	–	–	3,630	10,890	–	–
Opening balance at 1 January 2018		–	36,102	96,658	101,418	312,496	8,868	207,976	84,395	775,782	(100,581)

* The amounts in this line are after the adjustments from the application of HKFRS 15.

(a) AFS investment

The Group elected to present in other comprehensive income for the fair value changes of all its equity investment previously classified as AFS investment. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, approximately HK$21,582,000 were reclassified from AFS investment to equity instrument at FVTOCI, of which all related to unquoted equity investment previously measured at cost less impairment under HKAS 39. The fair value gains of approximately HK$14,520,000 relating to that unquoted equity investment previously carried at cost less impairment were adjusted to equity instrument at FVTOCI and revaluation reserve as at 1 January 2018.

(b) From trade and bills receivables to debt instruments at FVTOCI

Trade and bills receivables with a fair value of HK$8,868,000 were reclassified from trade and bills receivables to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

3.2 HKFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. Except for those which had been determined as credit impaired under HKAS 39, trade receivables and contract assets are grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances, amount due from ultimate holding company, amounts due from fellow subsidiaries and other receivables, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition, except for other receivables of HK$12,149,000 which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

As at 1 January 2018, credit loss allowance of approximately HK$8,288,000 has been reversed against total equity and the respective assets.

3.3 Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

3.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards

The loss allowances for trade and bills receivables, other receivables and contract assets as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables HK$'000	Other receivables HK$'000	Contract assets HK$'000	Amount due from contract works HK$'000
At 31 December 2017 - HKAS 39	48,744	8,646	—	33,911
Reclassification	—	—	33,911	(33,911)
Amounts remeasured through opening retained profits	(6,380)	(2,146)	238	—
At 1 January 2018	42,364	6,500	34,149	—

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

3.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards (continued)

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 HK$'000 (Restated under merger accounting)	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 HK$'000 (Restated)
Non-current Assets				
AFS investment	21,582	—	(21,582)	—
Equity instrument at FVTOCI	—	—	36,102	36,102
Current Assets				
Trade and bills receivables	314,984	—	(2,488)	312,496
Prepayments, deposits and other receivables	99,272	—	2,146	101,418
Amounts due from customers for contract work	96,896	(96,896)	—	—
Debt instruments at FVTOCI	—	—	8,868	8,868
Contract assets	—	96,896	(238)	96,658
Current Liabilities				
Other payables, deposits received and accrued expenses	560,970	(130,727)	—	430,243
Amounts due to customers for contract work	392,528	(392,528)	—	—
Contract liabilities	—	523,255	—	523,255
Deferred tax liabilities	204,346	—	3,630	207,976
Equity				
Revaluation reserve	73,505	—	10,890	84,395
Retained profits	765,370	—	10,412	775,782
Non - controlling interest	(98,457)	—	(2,124)	(100,581)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS	
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2021

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 January 2020

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

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 Leases (continued)

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$20,390,000 as disclosed in Note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK (IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instrument, which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The principle accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

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

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Acquisition of a subsidiary not constituting a business

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

Investments in an associate and a joint venture

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI of the associate or joint venture. Changes in net assets of the associate and joint venture other than profit or loss and OCI are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in an associate and a joint venture (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3)

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

A performance obligation represents a good or 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:

- 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 good or service.

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 HKFRS 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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

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

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

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

Software development contracts

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

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as contract assets. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as contract liability.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Leasehold land and building

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

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

Foreign currencies

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated from their functional currencies into the presentation currency of the Company (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in OCI and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

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

Government grants

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

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

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

Retirement benefits costs

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

Short-term employee benefits

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

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

Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

Investment properties

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (continued)

A financial asset is classified as held for trading if:

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

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Equity instrument designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the revaluation reserve.

Dividends from these investments in equity instrument are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (continued)

(iv) 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 gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, debt instruments at FVTOCI, other receivables, amount due from ultimate holding company, amounts due from fellow subsidiaries, pledged bank deposits, and bank balances and cash) and contract assets. 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. Assessment are done 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 and contract assets without significant financing component. The ECL on these assets are assessed individually with credit impaired and collectively using a provision matrix with appropriate groupings with shared credit characteristics.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) (continued)

(i) 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.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group's debt instruments at FVTOCI only comprise bills receivable that are issued and guaranteed by the reputable PRC banks and therefore are considered to be low credit risk.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) (continued)

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by recognising the corresponding adjustment through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets comprise financial assets at FVTPL, AFS investment and loans and receivables. The accounting policies are set out below. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

AFS equity investments

AFS equity investments are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

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

Dividends on AFS equity instrument are recognised in profit or loss when the Group's right to receive the dividend is established.

Loans and receivables

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For AFS instrument, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

When an AFS equity investments is considered to be impaired, cumulative gains or losses previously recognised in OCI are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in OCI and accumulated under the heading of revaluation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the AFS revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

Deferred taxation on investment properties

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

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

Key sources of estimation uncertainty

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

Software development contracts

Under HKFRS 15, the Group recognises contract revenue and profit on a software development contract according to the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. Revenue and costs in connection with software development contracts are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Notwithstanding that management reviews and revises the estimates of both contract revenue and costs for the software development contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimation of fair value of investment properties

At the end of the reporting period, the Group's investment properties in the Mainland China are stated at fair value of approximately HK$797,797,000 (2017: HK$543,520,000) based on a valuation performed by a firm of professional valuer ("Valuer"). The Valuer has applied income capitalisation approach which involves, inter-alia, certain estimates, including appropriate term yield, reversionary yield and market rent of comparable properties. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation are reflective of the current market conditions and the current condition of the properties. Changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the amount of fair value gain or loss of the Group's investment properties reported in the consolidated statement of profit or loss.

Fair value measurement of financial instrument at FVTOCI

Certain of the Group's financial assets, unquoted equity instruments, amounting to HK$40,849,000 (Note 20) as at 31 December 2018 (HK$36,102,000 as at 1 January 2018) are measured at fair values. The fair values of the identified assets are determined by reference to the valuation performed by independent valuer. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

Provision of ECL for trade receivables and contract assets

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets except that trade receivables and contract assets with credit impaired are assessed for ECL individually. The provision rates are based on internal credit ratings as groupings of various debtors by their aging, which are considered of similar loss pattern. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

As at 31 December 2018, the gross carrying amount of trade receivables and contract assets were HK$318,211,000 and HK$231,952,000, respectively and the balances of allowance for credit losses were HK$37,062,000 and HK$40,067,000, respectively.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Note 37.

6. REVENUE

A. For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018 Internet of things (IoT) solution HK$'000	 Management software and cloud services HK$'000	 Consolidated HK$'000
Types of goods or services			
Sales of IT peripherals and software	335,094	—	335,094
Software development	—	1,786,766	1,786,766
Other software services	—	320,756	320,756
	335,094	2,107,522	2,442,616
Geographical markets			
Mainland China	335,094	1,831,255	2,166,349
United States	—	155,839	155,839
Others	—	120,428	120,428
	335,094	2,107,522	2,442,616
Timing of revenue recognition			
A point in time	335,094	—	335,094
Over time	—	2,107,522	2,107,522
	335,094	2,107,522	2,442,616

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December 2018 Segment Revenue HK$'000	 Adjustments and eliminations HK$'000	 Consolidated HK$'000
Sales of IT peripherals and software	335,094	—	335,094
Software development	1,786,766	—	1,786,766
Other software services	320,756	—	320,756
Revenue from contracts with customers	2,442,616	—	2,442,616
Total revenue	2,442,616	—	2,442,616

6. REVENUE (continued)

A. For the year ended 31 December 2018 (continued)

Performance obligations for contracts with customers

The Group's revenue is mainly generated from the sales of IT peripherals and software, software development and other software services.

For the sales of IT peripherals and software, group's main products are computer hardware and software products, which are standard, non-costumed, and standard packaged. According to the agreement and purchase order, the significant risk and rewards of ownership are transferred to customers upon the acceptance of products, and the Group does not have any subsequent obligation or involvement. So the Group recognises at a point in time which is in accordance to HKFRS 15.

Revenue in connection with software development contracts are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. So the Group recognises at over time which is in accordance to HKFRS 15.

Other software services represent software application and technical support service to customers. Price setting with workload confirmed by client, under this price setting scheme, the fee charged to customer is not fixed. So the Group recognises revenue at over time which is in accordance to HKFRS 15.

Transaction price allocated to the remaining performance obligation for contracts with customers

All contracts are for periods of one year or less. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 HK$'000 (Restated)
Sales of IT peripherals and software	241,705
Software development	1,446,810
Other software services	276,635
	1,965,150

7. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision makers ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on nature of types of services provided. These revenue streams and the basis of the internal reports about components of the Group are regularly reviewed by the CODM in order to allocate resources to segments and to assess their performance.

In previous years, specifically, the Group's reportable and operating segments were as follows:

1. Software development and solution - Provision of sales of IT peripherals and software and software development;

2. Software outsourcing - Provision of other software services.

The above reportable and operating segments were based on the types of services provided. During the year, CODM's focus has been changed after the Group acquired Tianyuan Communication Group which is principally engaged in software development and big data business. As a result, the Group is now organised into the following operating and reportable segments:

1. Management software and cloud services - Provision of software development and other software services;

2. Internet of things (IoT) solution - Provision of sales of IT peripherals and software.

Segment revenue and results

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

For the year ended 31 December 2018

	Internet of things (IoT) solution HK$'000	Management software and cloud services HK$'000	Consolidated HK$'000
Segment revenue	335,094	2,107,522	2,442,616
Segment profit	12,567	259,384	271,951
Unallocated other income, gains and losses, net			64,908
Change in fair value of investment properties			12,336
Share of profit of an associate			191,287
Share of loss of a joint venture			(42,842)
Share-based payments			(46,917)
Unallocated administrative costs			(65,619)
Unallocated selling and distribution expenses			(1,007)
Impairment losses, net of reversal			(7,235)
Financial costs			(13,743)
Profit before tax			363,119

7. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2017

	Internet of things (IoT) solution HK$'000 (Restated)	Management software and cloud services HK$'000 (Restated)	Consolidated HK$'000 (Restated)
Segment revenue	241,705	1,723,445	1,965,150
Segment profit	18,812	160,345	179,157
Unallocated other income, gains and losses, net			49,840
Change in fair value of investment properties			18,016
Share of profit of an associate			37,849
Share of profit of a joint venture			2,772
Share-based payments			(33,669)
Unallocated administrative costs			(63,764)
Unallocated selling and distribution expenses			(762)
Financial costs			(5,275)
Profit before tax			184,164

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

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information

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

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

7. SEGMENT INFORMATION (continued)

Geographical information (continued)

	Revenue from external customers		Non-current assets*	
	2018 HK$'000	2017 HK$'000 (Restated)	2018 HK$'000	2017 HK$'000 (Restated)
Country of domicile				
- Mainland China	2,166,349	1,804,173	1,788,316	1,665,926
- Hong Kong	—	—	35,419	32,219
	2,166,349	1,804,173	1,823,735	1,698,145
Others	276,267	160,977	1,020	1,537
	2,442,616	1,965,150	1,824,755	1,699,682

* Non-current assets excluded those relating to equity instrument at FVTOCI (2017: AFS investment).

Information about major customers

The group has no customers whose revenue amount is more than 10% of the Group's revenue in 2018 and 2017.

8. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	2018 HK$'000	2017 HK$'000 (Restated)
Other income:		
Interest income on bank deposits	2,152	22,866
Interest income on entrusted loan receivables	—	4,036
Interest income on financial assets at FVTPL	22,615	—
Dividend income from AFS investment	—	1,314
VAT refund (note a)	79,810	80,011
Government subsidies and grants (note b)	26,972	14,040
Rental income	58,675	49,727
Others	269	105
	190,493	172,099
Other gains and losses, net:		
Net foreign exchange gain	5,833	46
Net gain (loss) on disposal and written off of property, plant and equipment	131	(38)
	5,964	8

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

Notes:

a. Inspur General Software Co., Ltd ("Inspur Genersoft") and Tianyuan Communications are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, it is entitled to a refund of VAT paid for sales of self-developed software in the PRC.

b. For the year ended 31 December 2018, income of approximately HK$7,411,000 (2017: HK$12,172,000) represents the subsidies from the relevant government authorities for the purpose of encouraging the development of the group entities engaged in new and high technology sector. The subsidies received are in substance a kind of immediate financial support to the group entities with no future related costs and are recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to these subsidies.

For the year ended 31 December 2018, income of approximately HK$19,561,000 (2017: HK$1,868,000) represents the grants from the relevant government authorities for funding certain development projects undertaken by the group entities. The grants received are recognised as income when i) the related projects have been completed, ii) the evaluation of the project results by the relevant government authority has been completed and iii) no other future conditions are required to fulfil by the Group.

9. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 HK$'000
Impairment losses (reversed) recognised on:	
– Trade receivables	(3,232)
– Other receivables	2,466
– Contract assets	8,001
	7,235

10. INCOME TAX EXPENSES

	2018 HK$'000	2017 HK$'000 (Restated)
Current tax:		
PRC EIT	13,380	12,190
Under provision in prior years:		
PRC EIT	2,507	128
Deferred taxation (Note 34)	2,785	10,949
	18,672	23,267

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

10. INCOME TAX EXPENSES (continued)

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

Tianyuan Communications and Tianyuan Network are recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15% for the year ended 31 December 2018 and 2017.

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

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

	2018 HK$'000	2017 HK$'000 (Restated)
Profit before tax	363,119	184,164
Tax at PRC EIT rate of 25% (2017: 25%) (note)	90,780	46,041
Tax effect of share of profit of an associate	(47,822)	(9,462)
Tax effect of share of loss (profit) of a joint venture	10,710	(693)
Tax effect of expenses not deductible for tax purpose	13,901	14,484
Tax effect of income not taxable for tax purpose	—	(7,886)
Tax effect of tax losses and deductible temporary differences not recognised	40,827	6,094
Utilisation of tax losses previously not recognised	(9,269)	(4,295)
Under provision in respect of previous years	2,507	128
EIT tax benefits	(81,968)	(23,592)
Deferred tax on withholding tax arising from PRC subsidiaries	(8,932)	(142)
Deferred tax on change in fair value of investment properties in PRC	2,345	2,590
Deferred tax on government grant previously not taxable	5,593	—
Income tax expenses for the year	18,672	23,267

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

10. INCOME TAX EXPENSES (continued)

At the end of the reporting period, the Group had unused tax losses of HK$131,758,000 (2017: HK$111,095,000), subject to approval of relevant tax authorities, available for offset against future profits. No deferred tax asset has been recognised in respect of such losses at the end of the reporting period, due to the unpredictability of future profit streams.

According to the regulations of the State Administration of Taxation of China in 2018, enterprises with qualifications for high-tech enterprises or small and medium-sized technical enterprises who have qualified can utilize the tax losses incurred during the five years prior to the qualification year in future, the longest period is 10 years.

Tax losses of HK$86,797,000 (2017: HK$81,735,000) will expire in various years before 2028 (2017: 2027). Other tax losses may be carried forward indefinitely.

11. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000 (Restated)
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**4,936**	2,586
(Reversal of) loss allowance for trade and other debts	**(766)**	11,703
Loss allowance on contract assets	**8,001**	2,691
Research and development costs recognised as expense	**152,304**	112,043
Cost of inventories recognised as expense in cost of sales	**317,348**	212,238
Depreciation for property, plant and equipment	**55,972**	38,201
Amortisation for other intangible assets	**668**	656
Change in fair value of investment properties	**(12,336)**	(18,016)
Amortisation of prepaid lease payments	**2,297**	2,237
Directors' remuneration (Note 12)	**15,807**	5,841
Other staff costs		
Salaries and other benefits	**998,505**	822,226
Share-based payments	**35,958**	30,758
Retirement benefits schemes contributions	**144,156**	126,188
	1,178,619	979,172
Operating lease rentals in respect of office premises and staff quarters	**59,950**	52,159

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share based payments HK$'000	Total HK$'000
For the year ended 31 December 2018					
Executive Directors (note i)					
Wang Xingshan (note ii)	300	675	69	4,487	5,531
Lee Eric Kong (note iii)	—	2,371	18	5,407	7,796
Jin Xiaozhou, Joe	—	1,056	119	684	1,859
Non-Executive Directors (note iv)					
Samuel Y. Shen	—	—	—	—	—
Dong Hailong	—	—	—	—	—
Independent Non-Executive Directors (note v)					
Wong Lit Chor, Alexis	120	—	—	127	247
Zhang Ruijun	60	—	—	127	187
Ding Xiangqian	60	—	—	127	187
Total	540	4,102	206	10,959	15,807

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

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

Notes:

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

ii Wang Xingshan is Chairman of the board. His emoluments disclosed above include those for services rendered by him as the Chairman of the board.

iii Lee Eric Kong was appointed as Executive Director on 1 August 2017, and was appointed as Chief Executive on 17 August 2018.

iv The non-executive directors' emoluments shown above were mainly for their services as directors of the Company. Samuel Y. Shen was resigned as Non-Executive Directors on 27 March 2018.

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

During the year ended 31 December 2018, 7,825,000 (2017: 5,300,000) share options were granted to certain directors of the Company in respect of their services to the Group under the Option Scheme (as defined in Note 32). Details of the share options scheme are set out in Note 32. The share-based payments represent the grant date fair value of share options granted under the Option Scheme amortised over the vesting period and is recognised in the consolidated statement of profit or loss during the year.

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

13. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, three (2017: two) were directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining two (2017: three) highest paid individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	4,364	4,065
Retirement benefit scheme contributions	108	18
	4,472	4,083

Their remuneration were within the following bands:

	2018 No. of employees	2017 No. of employees
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	1	1
	2	3

During the year ended 31 December 2018, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 32.

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

14. DIVIDEND

	2018 HK$'000	2017 HK$'000
Dividends recognised as distribution during the year:		
2017 final dividend - HK$0.03 (2017: 2016 final dividend - HK$0.03) per ordinary share	28,582	27,046
Dividends recognised as distribution by a subsidiary of Popular (note)	—	41,731
	28,582	68,777

Note: Tianyuan Network, a subsidiary of Popular distributed the dividends to its original shareholders in year 2017.

14. DIVIDEND (continued)

Subsequent to the end of the reporting period, a final dividend of HK$0.04 in respect of the year ended 31 December 2018 (2017: final dividend of HK$0.03 in respect of the year ended 31 December 2017) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2018 HK$'000	2017 HK$'000
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2018 of HK$0.04 (2017: HK$0.03) per ordinary share on 1,138,920,731 (2017: 952,736,000) shares	45,557	28,582

15. EARNINGS PER SHARE

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

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

	2018 HK$'000	2017 HK$'000 (Restated)
Earnings		
Profit for the year attributable to the owners of the Company	324,030	139,201

	2018 '000	2017 '000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	1,113,945	1,058,638
Effect of dilutive potential ordinary shares arising from the outstanding share options	3,131	7,837
Weighted average number of ordinary shares for the purpose of diluted earnings per share*	1,117,076	1,066,475

* The weighted average number of ordinary shares for the purpose of diluted earnings per share for the year ended 31 December 2017 has been adjusted on the assumption that the acquisition of Tianyuan Communication as set out in Note 2 had been completed on 1 January 2017.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Specialised equipment HK$'000	Machinery and equipment HK$'000	Fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At 1 January 2017 (restated)	654,773	87,701	5,827	41,792	36,711	2,404	829,208
Additions	–	3,315	2,342	19,145	882	–	25,684
Disposals/written off	–	–	–	(1,083)	(460)	–	(1,543)
Transfer to investment properties	(3,755)	(1,159)	–	–	–	–	(4,914)
Exchange adjustments	19,793	7,694	646	2,487	4,001	106	34,727
At 31 December 2017 (restated)	670,811	97,551	8,815	62,341	41,134	2,510	883,162
Additions	–	2,183	12,908	30,080	8,770	–	53,941
Disposals/written off	–	–	–	(10,617)	(13,488)	(394)	(24,499)
Transfer to investment properties	(202,215)	(4,382)	–	–	–	–	(206,597)
Exchange adjustments	(35,019)	(5,088)	(1,059)	(3,984)	454	(128)	(44,824)
At 31 December 2018	433,577	90,264	20,664	77,820	36,870	1,988	661,183
ACCUMULATED DEPRECIATION							
At 1 January 2017 (restated)	24,282	18,990	5,716	27,093	26,034	1,899	104,014
Charge for the year	16,210	9,172	28	8,144	4,546	101	38,201
Eliminated on disposals/written off	–	–	–	(757)	(438)	–	(1,195)
Eliminated on transfer to investment properties	(216)	(293)	–	–	–	–	(509)
Exchange adjustments	2,399	1,926	395	1,262	2,622	107	8,711
At 31 December 2017 (restated)	42,675	29,795	6,139	35,742	32,764	2,107	149,222
Charge for the year	14,393	10,390	13,339	9,369	8,384	97	55,972
Eliminated on disposals/written off	–	–	–	(9,715)	(13,379)	(295)	(23,389)
Eliminated on transfer to investment properties	(16,421)	(879)	–	–	–	–	(17,300)
Exchange adjustments	(2,539)	(1,921)	(798)	(1,839)	(1,541)	(114)	(8,752)
At 31 December 2018	38,108	37,385	18,680	33,557	26,228	1,795	155,753
CARRYING VALUES							
At 31 December 2018	395,469	52,879	1,984	44,263	10,642	193	505,430
At 31 December 2017	628,136	67,756	2,676	26,599	8,370	403	733,940

16. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2018, the transfer of leasehold land and building and leasehold improvements to investment properties with carrying amount of HK$189,297,000 (2017: HK$4,405,000), is made when there is a change in use which is evidenced by commencement of operating lease to third parties or related parties. The fair value of these leasehold land and building and leasehold improvements at the date of transfer was HK$277,288,000 (2017: HK$6,093,000), resulting in recognition of surplus on revaluation of HK$55,272,000 (2017: HK$1,688,000) in OCI and accumulated in revaluation reserve.

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

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

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

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	506,568
Transfer from property, plant and equipment	6,093
Change in fair value of investment properties	18,016
Exchange adjustments	37,243
At 31 December 2017	567,920
Transfer from property, plant and equipment and prepaid lease payment	277,288
Change in fair value of investment properties	12,336
Exchange adjustments	(30,847)
At 31 December 2018	826,697

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

The fair value of the Group's investment properties at 31 December 2018 was approximately HK$826,697,000 (2017: HK$567,920,000). The fair value has been arrived at based on a valuation carried out by Asset Appraisal Limited, a firm of professional valuer not connected with the Group.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	At 31.12.2018		At 31.12.2017	
	Level 3 HK$'000	Fair value HK$'000	Level 3 HK$'000	Fair value HK$'000
Commercial property units located				
– Hong Kong	28,900	28,900	24,400	24,400
– Jinan	525,525	525,525	543,520	543,520
– Beijing	272,272	272,272	—	—
	826,697	826,697	567,920	567,920

17. INVESTMENT PROPERTIES (continued)

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

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Office premises located in Jinan	Level 3	Income capitalisation approach Key inputs are: – Term yield – Reversionary yield – Market rent of comparable properties	Key and unobservable inputs are: – Term yield: 5.25% (2017: 5.2%) – Reversion yield 5.75% (2017: 5.7%) – Market rent of comparable properties ranged from monthly amounts of RMB63.88 to RMB83.65 (2017: RMB63.88 to RMB83.65) per square meter, by taking accounts of the accessibility, size, locations and condition and environment of properties	– The higher the term yield and reversionary yield, the lower the fair value. – The higher the market rent, the higher the fair value.
Office premises located in Beijing	Level 3	Income capitalisation approach Key inputs are: – Term yield – Reversionary yield – Market rent of comparable properties	Key and unobservable inputs are: – Term yield: 4.7% – Reversion yield 5.2% – Market rent of comparable properties ranged from monthly amounts of RMB121.67-144 per square meter for office building and RMB400-440 for every parking lot, by taking accounts of the accessibility, size, locations and condition and environment of properties	– The higher the term yield and reversionary yield, the lower the fair value. – The higher the market rent, the higher the fair value.
Office premises located in Hong Kong	Level 3	Comparative approach Key input is recent market prices of comparable properties	Key and unobservable input is recent market price of comparable properties, by taking accounts of the accessibility, size, locations and condition and environment of properties	– The higher the market price, the higher the fair value.

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

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

18. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000 (Restated)
Analysed for reporting purposes as:		
Current asset	1,445	2,329
Non-current asset	56,773	95,611
	58,218	97,940

19. OTHER INTANGIBLE ASSETS

	Registered software HK$'000	Customers base HK$'000	Development expenditures HK$'000	Total HK$'000
COST				
At 1 January 2017 (restated)	33,336	57,385	—	90,721
Exchange adjustments	2,039	—	—	2,039
At 31 December 2017 (restated)	35,375	57,385	—	92,760
Addition	—	—	18,090	18,090
Exchange adjustments	(8,010)	—	(700)	(8,710)
At 31 December 2018	27,365	57,385	17,390	102,140
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2017 (restated)	29,261	57,385	—	86,646
Addition	656	—	—	656
Exchange adjustments	2,042	—	—	2,042
At 31 December 2017(restated)	31,959	57,385	—	89,344
Addition	668	—	—	668
Exchange adjustments	(7,858)	—	—	(7,858)
At 31 December 2018	24,769	57,385	—	82,154
CARRYING AMOUNTS				
At 31 December 2018	2,596	—	17,390	19,986
At 31 December 2017	3,416	—	—	3,416

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

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

Registered software	4 - 5 years
Customers base	10 years
Development expenditures	5 years

20. EQUITY INSTRUMENT AT FVTOCI

	HK$'000
Unlisted investment:	
Equity securities	
At 1 January 2018	36,102
Fair value change	6,885
Exchange adjustments	(2,138)
At 31 December 2018	40,849

The above unlisted equity investment represent the Group's equity interest in a private entity established in the PRC. The directors of the Company have elected to designate this investment as equity instrument at FVTOCI upon the adoption of HKFRS 9 as the investment is not held for trading and not expected to be sold in the foreseeable future.

21. INTEREST IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Cost of investment in an associate - unlisted	**102,114**	102,114
Share of post-acquisition profits and other comprehensive income, net of dividends received	**197,601**	48,002
	299,715	150,116

As at 31 December 2018 and 2017, the Group had interest in the following associate:

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

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

21. INTEREST IN AN ASSOCIATE (continued)

In December 2018, the local tax authorities have almost completed a tax investigation to Qingdao Lejin in relation to the transfer pricing adjustment from 2012 to 2013 and conclude a preliminary opinion, stipulating transfer pricing adjustment amounting to HK$36,600,000, together with certain interest charges and Qingdao Lejin has recognised such provision of EIT in the profit or loss.

Summarised financial information of the associate

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

	2018 HK$'000	2017 HK$'000
Current assets	1,892,749	1,382,820
Non-current assets	148,376	171,271
Current liabilities	(1,042,076)	(1,053,704)
Revenue	6,780,724	6,584,387
Profit for the year	639,498	126,163
Other comprehensive (expense) income for the year	(47,047)	31,137
Total comprehensive income for the year	592,451	157,300
Accrual Employee Award and Welfare Fund	(1,876)	—
Dividend paid during the year	91,913	—

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

	2018 HK$'000	2017 HK$'000
Net assets of Qingdao Lejin	999,049	500,387
Proportion of the Group's ownership interest in Qingdao Lejin	30%	30%
Group's share of net assets of an associate	299,715	150,116

22. INTEREST IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Cost of investment in a joint venture - unlisted	**185,266**	185,266
Share of post-acquisition losses and other comprehensive expenses	**(88,470)**	(39,708)
	96,796	145,558

As at 31 December 2018 and 2017, the Group had interest in the following joint venture:

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

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

Summarised financial information of the joint venture

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

	2018 HK$'000	2017 HK$'000
Current assets	**236,689**	251,901
Non-current assets	**222,055**	387,825
Current liabilities	**(131,488)**	(160,291)
Non-current liabilities	**(6,785)**	(11,301)
Non-controlling interest	**(30,085)**	(31,461)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**48,049**	61,929

22. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of the joint venture (continued)

	2018 HK$'000	2017 HK$'000
Revenue	204,289	156,495
(Loss) profit for the year	(128,524)	8,316
Other comprehensive (expense) income for the year	(17,763)	34,836
(Loss) profit and total comprehensive (expense) income for the year	(146,287)	43,152

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

	2018 HK$'000	2017 HK$'000
Net assets attributable to owners of the Inspur Cloud	290,386	436,673
Proportion of the Group's ownership interest in Inspur Cloud	33.33%	33.33%
Carrying amount of the Group's interest in Inspur Cloud	96,796	145,558

23. INVENTORIES

	2018 HK$'000	2017 HK$'000 (Restated)
Computer equipment and software products	16,194	12,586

24. TRADE AND BILLS RECEIVABLES

	2018 HK$'000
Trade receivables	
- goods and services	318,211
Less: Loss allowance	(37,062)
Total trade receivables	281,149

	2017 HK$'000 (Restated)
Trade and bills receivables	363,728
Less: Loss allowance	(48,744)
Total trade receivables	314,984

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$318,211,000 and HK$354,860,000 respectively.

24. TRADE AND BILLS RECEIVABLES (continued)

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2018 HK$'000	2017 HK$'000 (Restated)
0-30 days	182,716	172,674
31-60 days	22,607	31,614
61-90 days	4,574	21,223
91-120 days	10,763	19,318
121-180 days	19,187	15,918
Over 180 days	41,302	54,237
	281,149	314,984

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$98,433,000 which are past due as at the reporting date. Out of the past due balances, HK$60,489,000 has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are considered recoverable.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$133,477,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. Other than bills received amounting to HK$8,868,000, the Group does not hold any collateral over these balances.

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

	2017 HK$'000 (Restated)
31-60 days	30,758
61-90 days	20,953
91-120 days	18,634
121-180 days	13,141
Over 180 days	49,991
	133,477

24. TRADE AND BILLS RECEIVABLES (continued)

Movement in the allowance for doubtful debts:

	2018 HK$'000	2017 HK$'000 (Restated)
31 December	**48,744**	43,004
Adjustment upon application of HKFRS 9	**(6,380)**	—
1 January	**42,364**	43,004
Impairment losses recognised	**6,256**	5,466
Impairment losses reversed	**(9,488)**	(3,263)
Exchange adjustments	**(2,070)**	3,537
31 December	**37,062**	48,744

Details of impairment assessment of trade and other receivables for year ended 31 December 2018 are set out in Note 37.

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

	2017 HK$'000 (Restated)
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits less recognised losses	3,158,583
Less: Progress billings	(3,454,215)
	(295,632)
Analysed for reporting purposes as:	
Amounts due from contract customers	96,896
Amounts due to contract customers	(392,528)
	(295,632)

As at 31 December 2017, retentions held by customers for contract work amounted to HK$6,977,000 were included in prepayments, deposits and other receivables. Amounts received before the related work is performed amounted to HK$130,727,000 were included in other payables, deposits received and accrued expenses. All amounts are expected to be realised within 12 months from the end of the reporting date.

Management assessed the recoverable amounts of the contract costs and determined that costs incurred for certain long outstanding contracts were impaired. Accordingly, impairment loss of HK$2,691,000 was recognised in the year ended 31 December 2017.

26. CONTRACT ASSETS & CONTRACT LIABILITIES

	2018 HK$'000
CONTRACT ASSETS	
Current - software development	191,885
CONTRACT LIABILITIES	
Current - software development	(511,281)

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

Software development

The Group's software development contracts include payment schedules which require stage payments over the development period once certain specified milestones are reached. The Group requires certain customers to provide deposits 20% - 50% of total contract sum as part of its credit risk management policies. The Group usually transfer from contract assets to trade receivables after issuing bills as required by the contract.

The Group also typically agrees to a retention period ranging from 6 months to 1 years for 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on that there are no warranty issues after the retention period. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Software development

When the Group receives a deposit before the software development activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 20% - 50% deposit on acceptance orders.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carried interest at market rates which range from 0.01% to 1.35% (2017: 0.01% to 1.8%) per annum.

At 31 December 2018, pledged bank deposits represented deposits pledged to banks to secure bank acceptance bills and general banking facilities granted to the Group and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.55% to 1.35% (2017: 0.55% to 2.25%) per annum.

28. TRADE PAYABLES

The following is an aged analysis of trade payable presented based on the invoice date. The analysis includes those classified as part of a disposal group held for sale.

	2018 HK$'000	2017 HK$'000 (Restated)
0-60 days	48,424	92,935
61-90 days	4,734	7,622
>90 days	127,495	81,925
	180,653	182,482

29. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	2018 HK$'000	2017 HK$'000 (Restated)
Amounts due from related companies:		
Trading in nature		
Fellow subsidiaries	319,842	194,715
Ultimate holding company	4,588	8,188
	324,430	202,903
Non-trading in nature		
Fellow subsidiaries	3,720	5,578
Ultimate holding company	780	10
	4,500	5,588
Total amounts due from related companies	328,930	208,491
Analysed as:		
Amounts due from fellow subsidiaries	323,562	200,293
Amount due from ultimate holding company	5,368	8,198
Total amounts due from related companies	328,930	208,491

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

The Group allows an average trade credit period of 30 to 210 days (2017: 30 to 210 days) to its trade receivables due from its fellow subsidiaries and ultimate holding company.

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

	2018 HK$'000	2017 HK$'000 (Restated)
0 - 30 days	**277,766**	144,415
31 - 60 days	**7,630**	8,128
61 - 90 days	**7,950**	2,240
91 - 210 days	**11,417**	19,975
Over 210 days	**19,667**	28,145
	324,430	202,903

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

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

30. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	2018 HK$'000	2017 HK$'000 (Restated)
Trading in nature		
Fellow subsidiaries	62,036	7,671
Ultimate holding company	736	1,017
	62,772	8,688
Non-trading in nature		
Fellow subsidiaries	14,096	577,972
Ultimate holding company	343	1,935
	14,439	579,907
Total amounts due to related companies	77,211	588,595
Analysed as:		
Amounts due to fellow subsidiaries	76,132	585,643
Amount due to ultimate holding company	1,079	2,952
Total amounts due to related companies	77,211	588,595

The average credit period taken for trade purchases from related companies is 30 to 120 days (2017: 30 to 120 days). The following is an aged analysis of the amounts due to related companies which are trading in nature at the end of the reporting period.

	2018 HK$'000	2017 HK$'000 (Restated)
0 to 30 days	37,701	5,319
31 to 60 days	13,405	2,503
61 to 90 days	344	—
Over 90 days	11,322	866
	62,772	8,688

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

31. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2018	2017	**2018**	2017
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each:				
Authorised	**2,000,000**	2,000,000	**20,000**	20,000
At beginning of year	**952,736**	901,536	**9,527**	9,015
Exercise of share options	**—**	51,200	**—**	512
Issued in consideration for the acquisition of the issued share capital of a subsidiary	**186,184**	—	**1,862**	—
At end of year	**1,138,920**	952,736	**11,389**	9,527

32. SHARE OPTION SCHEMES

Equity-settled share options scheme

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

At 31 December 2018, the number of share options had been granted and remained outstanding under the Option Schemes are 60,000,000 shares (2017: 30,000,000 shares) representing 5% (2017: 3%) of the issued share capital of the Company.

The total number of shares in respect of which options may be granted under the Option Schemes is not permitted to exceed 10% of the shares of the Company of the adoption date of the Option Scheme unless prior approval from the Company's shareholders in general meeting has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Schemes and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares in respect of which options may be granted to any eligible participant in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, unless prior approval from the Company's shareholders in general meeting has been obtained. Options granted to substantial shareholder or an independent non-executive director of the Company in excess of 0.1% of the Company's share in issue and with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders in general meeting.

32. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

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

2010 Option

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

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

2015 Option

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

40% of the share options granted at 16 July 2015 are exercisable at the date of grant; 40% of the share option are exercisable after 1 year from the date of grant; the remaining 20% of the share option are exercisable after 2 years from the date of grant. All options will be vested on the first day of respective exercise period. The estimated fair value of the options granted on 16 July 2016 is HK$32,192,000.

2016 Option

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

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

32. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

2017 May Option

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

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

2017 December Option

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

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

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

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

2018 Option

On 16 October 2018, a total of 30,000,000 were granted to certain employees and directors of the Group under the option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$3.16 per share.

32. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

2018 Option (continued)

Scenario 1

Among the options granted above, 600,000 share options were granted to certain independent non-executive directors. One third of the options may be exercisable from 16 October 2018, another one third of the options may be exercisable from 16 October 2019, and the remaining options may be exercisable from 16 October 2020. All options will be vested on the first day of respective exercise period.

Scenario 2

4,600,000 share options were granted to certain executive directors and the remaining 12,900,000 share options were granted to certain employees. All options may be exercisable from 16 October 2018. The exercise of the options is subject to the grantee meeting the market capital determined by the share price. All options will be vested on the first day of exercise period.

Scenario 3

2,625,000 share options were granted to certain executive directors and the remaining 9,275,000 share options were granted to certain employees. 50% of share options may be exercisable from 1 January 2019, 30% of the share options may be exercisable from 1 January 2020, and the remaining 20% of the share options may be exercisable from 1 January 2021. The exercise of the options is subject to the grantee meeting the performance target determined by the board of the Company.

The estimated fair value of the options granted on 16 October 2018 is HK$40,835,000.

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

	2018 Option	2017 December Option	2017 May Option	2016 Option	2015 Option	2010 Option
Share price	**HK$3.05**	HK$2.06	HK$1.63	HK$1.34	HK$1.67	HK$3.41
Exercise price	**HK$3.16**	HK$2.06	HK$1.63	HK$1.34	HK$1.71	HK$3.41
Expected volatility	**46.37%**	50.69%	53.01%	55.97%	58.76%	55.04%
Expected life	**10 years**	10 years	10 years	10 years	10 years	10 years
Risk - free rate	**2.48%**	1.75%	1.44%	1.20%	1.83%	2.77%
Expected dividend yield	**1.14%**	1.62%	1.88%	1.95%	1.80%	1.93%

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

32. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

Details of specific categories of options as at 31 December 2018 are as follows:

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

32. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

	Date of grant	Exercise period	Weighted Average Fair value HK$	Exercise price HK$
2017 December Option	1 December 2017	1 April 2018 to 30 November 2027	0.99	2.06
	1 December 2017	1 April 2019 to 30 November 2027	1.00	2.06
	1 December 2017	1 April 2020 to 30 November 2027	1.01	2.06
	1 December 2017	1 Dec 2017 to 30 November 2027	0.90	2.06
	1 December 2017	1 Dec 2018 to 30 November 2027	0.90	2.06
	1 December 2017	1 Dec 2019 to 30 November 2027	0.93	2.06
2018 Option	Scenario 1: Options granted to independent directors			
	16 October 2018	16 Oct 2018 to 15 Oct 2028	1.45	3.16
	16 October 2018	16 Oct 2019 to 15 Oct 2028	1.45	3.16
	16 October 2018	16 Oct 2020 to 15 Oct 2028	1.47	3.16
	Scenario 2: Vesting condition linked with market capital			
	16 October 2018	16 Oct 2018 to 15 Oct 2028	1.36	3.16
	Scenario 3: Vesting condition linked with KPI			
	16 October 2018	01 Oct 2019 to 15 Oct 2028	1.35	3.16
	16 October 2018	01 Oct 2020 to 15 Oct 2028	1.36	3.16
	16 October 2018	01 Oct 2021 to 15 Oct 2028	1.39	3.16

32. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

The following table discloses details of the Company's share options held by directors and employees and movements in such holdings during the years ended 31 December 2018 and 2017:

	Outstanding at 1.1.2017	Granted during the year	Exercise during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31.12.2017	Granted during the year	Outstanding at 31.12.2018
2010 Option	5,020,000	–	–	(80,000)	(4,940,000)	–	–	–
2015 Option	40,000,000	–	(33,200,000)	–	(6,800,000)	–	–	–
2016 Option	30,000,000	–	(14,640,000)	–	(15,360,000)	–	–	–
2017 May Option	–	20,000,000	(3,360,000)	–	(16,640,000)	–	–	–
2017 December Option	–	30,000,000	–	–	–	30,000,000	–	30,000,000
2018 Option	–	–	–	–	–	–	30,000,000	30,000,000
	75,020,000	50,000,000	(51,200,000)	(80,000)	(43,740,000)	30,000,000	30,000,000	60,000,000
Weighted average exercise price	1.68	1.89	1.60	3.41	1.74	2.06	3.16	2.61

The number of share options exercisable at the end of reporting period was 19,200,000 (2017: 9,000,000).

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

	Outstanding at 1.1.2017	Granted during the year	Exercise during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31.12.2017	Granted during the year	Outstanding at 31.12.2018
2010 Option	1,520,000	–	–	(80,000)	(1,440,000)	–	–	–
2015 Option	4,000,000	–	(3,600,000)	–	(400,000)	–	–	–
2016 Option	1,600,000	–	(840,000)	–	(760,000)	–	–	–
2017 May Option	–	2,300,000	(240,000)	–	(2,060,000)	–	–	–
2017 December Option	–	3,000,000	–	–	–	3,000,000	–	3,000,000
2018 Option	–	–	–	–	–	–	7,825,000	7,825,000
	7,120,000	5,300,000	(4,680,000)	(80,000)	(4,660,000)	3,000,000	7,825,000	10,825,000

The Group recognised the total expense of HK$46,917,000 (2017: HK$33,669,000) for the year ended 31 December 2018 in relation to share options granted by the Company.

33. DEFERRED INCOME - GOVERNMENT GRANTS

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

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

34. DEFERRED TAX

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

	Withholding tax arising from PRC subsidiaries HK$'000	Fair Value adjustment of business combination HK$'000	Revaluation of investment properties HK$'000	Equity at FVTOCI HK$'000	Deductible loss HK$'000	Impairment losses net of reversal HK$'000	Other HK$'000	Total HK$'000
At 1 January 2017 (restated)	(14,134)	(145,442)	(26,491)	–	–	1,624	(1,960)	(186,403)
(Charge) credit to profit or loss	(6,410)	917	(7,094)	–	1,638	–	–	(10,949)
Charge to other comprehensive expense	–	–	(390)	–	–	–	–	(390)
Exchange adjustments	(274)	(827)	(2,310)	–	68	10	(150)	(3,483)
At 31 December 2017 (restated)	(20,818)	(145,352)	(36,285)	–	1,706	1,634	(2,110)	(201,225)
Adjustment upon application of HKFRS 9	–	–	–	(3,630)	–	–	–	(3,630)
At 1 January 2018 (restated)	(20,818)	(145,352)	(36,285)	(3,630)	1,706	1,634	(2,110)	(204,855)
Transfer from property, plant and equipment to investment properties	–	68,141	(68,141)	–	–	–	–	–
Credit (charge) to profit or loss	8,932	741	(3,570)	–	(1,683)	(1,612)	(5,593)	(2,785)
Charge to other comprehensive expense	–	–	(32,647)	(1,721)	–	–	–	(34,368)
Exchange adjustments	96	6,921	2,884	255	(23)	(22)	327	10,438
At 31 December 2018	(11,790)	(69,549)	(137,759)	(5,096)	–	–	(7,376)	(231,570)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences relating to the undistributed profits of certain PRC subsidiaries amounting to approximately HK$924,054,000 (2017: HK$543,092,000) as the Company controls the dividend policy of these subsidiaries and it is probable that the profits will not be distributed in the foreseeable future.

35. ACQUISITION OF SUBSIDIARIES

On 9 May 2018 and 28 May 2018, Inspur Electronics (a wholly-owned subsidiary of the Company), entered into the Share Purchase Agreements and the Supplemental Agreements with Inspur Overseas which agreed to purchase the entire issued share capital of Popular and its subsidiaries for a total consideration of (i) issuing 139,800,400 new shares of HK$0.01 each at an issue price of HK$2.65 per share to Inspur Overseas; and (ii) assumption of outstanding loan of RMB470,587,000 (equivalent to approximately HK$548,407,000)owed by Tianyuan Communications and entered into the Share Purchase Agreements and the Supplemental Agreements with Merit Express which agreed to purchase 51% of the issued share capital of Depot Wealth for a total consideration of (i) issuing 46,384,000 new share of HK$0.01 each at an issue price of HK$2.65 per share to Merit Express; and (ii) cash of RMB75,460,000 (equivalent to approximately HK$84,873,000).

The acquisition was completed on 17 July 2018, and acquired 76% equity interest of Tianyuan Communications Group with consideration of HK$945,440,000 and HK$216,604,000 paying to Inspur Overseas and Merit Express respectively. As disclosed in Note 2, the Group and Tianyuan Communications Group are under common control of IPG and accordingly, this acquisition is accounted for by applying the principles of merger accounting.

As at 25 April 2017, Tianyuan Communications acquired 100% equity interest in both Beijing Yuanshuo Technology Co., Ltd. ("Yuanshuo Technology") and Beijing Tianyuan Weiye Technology Co., Ltd. ("Tianyuan Weiye") from Inspur Software Group Co., Ltd. ("Inspur Software") at a consideration of RMB260,253,000 (equivalent to approximately HK$294,237,000) and from the independent third party at a consideration of RMB250,093,000 (equivalent to approximately HK$282,751,000) respectively. On the same date Tianyuan Communications has acquired 2.79% and 2.67% equity interest in Tianyuan Network from Inspur Software, and two independent third parties respectively at total consideration of RMB 27,846,000 (equivalent to approximately HK$31,482,000). As Tianyan Communications and Inspur Software are under common control of IPG and therefore such transactions are accounted for applying the principles of merger accounting.

36. CAPITAL RISK MANAGEMENT

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

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

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

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000 (Restated)
Financial assets		
AFS investment	—	21,582
Financial asset at FVTPL	34	35
Equity Instrument at FVTOCI	40,849	—
Debt instruments at FVTOCI	32,129	—
Financial assets at amortised cost	1,566,095	—
Loans and receivables (including cash and cash equivalents)	—	1,977,021
Financial liabilities		
Amortised cost	347,117	886,249

(b) Financial risk management objectives and policies

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

Market risk

Currency risk

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

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

37. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

Currency risk (continued)

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

	Assets		Liabilities	
	2018 HK$'000	2017 HK$'000 (Restated)	**2018 HK$'000**	2017 HK$'000 (Restated)
Relative to RMB:				
HK$	**44,311**	82,530	**—**	—
US$	**166,974**	207,145	**—**	—
Other currencies	**128**	93	**—**	—
Relative to HK$:				
US$	**35,246**	527	**—**	—
Other currencies	**1,869**	—	**—**	—
Relative to US$				
HK$	**—**	514	**—**	—
RMB	**—**	4,253	**—**	—
Other currencies	**—**	532	**—**	—
Relative to Japanese Yen				
HK$	**—**	5,234	**—**	—
RMB	**—**	641	**—**	—
US$	**—**	74	**—**	—

37. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

Currency risk (continued)

Sensitivity analysis

For the entities of which their functional currency is HK$ while holding assets denominated in US$, the directors of the Company consider that, as HK$ is pegged to US$, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of HK$ against US$ and hence only consider the sensitivity of the change in foreign exchange rate of HK$ against currencies other than US$. The sensitivity analysis includes only outstanding monetary items which are denominated in relevant foreign currencies and adjusts its translation at the yearend for a 5% change in the relevant foreign currency exchange rates. A positive number below indicates an increase in post-tax profit for the year where the relevant foreign currencies strengthens 5% against the functional currency of each group entities. For a 5% weakening of the relevant foreign currencies against the relevant currencies, there would be an equal and opposite impact on the post-tax profit for the year and the balances below would be negative 5% (2017: 5%) is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates.

	2018 HK$'000	2017 HK$'000 (Restated)
Impact on post-tax profit for the year		
HK$ impact	1,662	3,310
US$ impact	7,583	7,790
Other currency impact	75	23

Interest rate risk

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

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

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

37. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

Interest rate risk (continued)

The sensitivity analyses below have been determined based on the exposure to the variable-rate bank balances in the PRC. The analysis is prepared assuming the PRC bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2017: 10 basis points) increase or 10 basis points (2017: 10 basis points) decrease is used, which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points (2017: 10 basis points) higher or 10 basis points (2017: 10 basis points) lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would increase by HK$666,000 (2017: post-tax profit would increase by HK$1,054,000) and decrease by HK$666,000 (2017: post-tax profit would decrease by HK$1,054,000), respectively.

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by the counterparties is arising from the carrying amount of those assets as stated in the consolidated statement of financial position. Credit risk is primarily attributable to trade receivables, other receivables, and contract assets.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2018 and 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable, amounts due from ultimate holding company and fellow subsidiaries at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's trade receivables as at 31 December 2018 are due from a large number of customers, spread across diverse industries. The management closely monitors the subsequent settlement of the customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

37. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The Group's debt instruments at FVTOCI only comprise bills receivable that are issued and guaranteed by the reputable PRC banks and therefore are considered to be low credit risk.

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

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables and contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL - not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

37. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000
Debt instruments at FVTOCI			
Debt instruments at FVTOCI	Low risk	12m ECL	32,129
Financial assets at amortised cost			
Trade receivables (Note 24)	N/A (note ii)	Lifetime ECL (provision matrix)	292,766
	Loss	Lifetime ECL - credit-impaired	25,445
			318,211
Other receivables	Low risk (note i)	12m ECL	49,627
	Doubtful (note i)	Lifetime ECL - not credit-impaired	12,149
	Loss	Lifetime ECL - credit-impaired	6,470
			68,246
Amount due from ultimate holding company (Note 29)	Low risk	12m ECL	5,368
Amounts due from fellow subsidiaries (Note 29)	Low risk	12m ECL	323,562
Pledged bank deposits (Note 27)	Low risk	12m ECL	22,589
Bank balances and cash (Note 27)	Low risk	12m ECL	865,181
Other items			
Contract assets (Note 26)	N/A (note ii)	Lifetime ECL (provision matrix)	192,707
	Loss	Lifetime ECL - credit-impaired	39,245
			231,952

Notes:

i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

ii. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past-due status.

37. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Debtors with credit impaired with gross carrying amounts of HK$64,690,000 as at 31 December 2018 were assessed individually.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit -impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018 - as restated	21,872	20,492	42,364
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	—	6,256	6,256
– Impairment losses reversed	(9,488)	—	(9,488)
Exchange	(767)	(1,303)	(2,070)
As at 31 December 2018	11,617	25,445	37,062

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are obviously overdue and there is no possibility of collection whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

37. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

	12m ECL HK$'000	Lifetime ECL (not credit -impaired) HK$'000	Lifetime ECL (credit -impaired) HK$'000	Total HK$'000
As at 1 January 2018 - as restated	813	390	5,297	6,500
Changes due to financial instruments recognised as at 1 January:				
- Impairment losses recognised	115	845	1,506	2,466
Exchange	(46)	(51)	(333)	(430)
At 31 December 2018	882	1,184	6,470	8,536

The following tables show reconciliation of loss allowances that has been recognised for contract assets.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018 - as restated	238	33,911	34,149
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	622	7,379	8,001
Exchange	(38)	(2,045)	(2,083)
At 31 December 2018	822	39,245	40,067

37. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk

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

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

	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK$'000	3 months to 6 months HK$'000	6 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount at 31 December 2018 HK$'000
2018							
Trade and bills payables	–	36,550	22,552	121,551	–	180,653	180,653
Other payables	–	12,052	5,975	71,226	–	89,253	89,253
Amount due to ultimate holding company	–	1,079	–	–	–	1,079	1,079
Amounts due to fellow subsidiaries	–	76,132	–	–	–	76,132	76,132
		125,813	28,527	192,777	–	347,117	347,117

37. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK$'000	3 months to 6 months HK$'000	6 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount at 31 December 2017 HK$'000
2017							
Trade and bills payables	–	61,799	10,423	96,773	13,487	182,482	182,482
Other payables	–	42,165	311	26,666	22,010	91,152	91,152
Amount due to ultimate holding company	–	2,952	–	–	–	2,952	2,952
Amounts due to fellow subsidiaries	–	585,643	–	–	–	585,643	585,643
Bank loan		24,020	–	–	–	24,020	24,020
		716,579	10,734	123,439	35,497	886,249	886,249

(c) Fair value measurements of financial instruments

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial assets	Fair value at 31 December 2018 HK$'000	2017 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Equity instrument at FVTOCI (2017: classified as AFS investment)	**40,849**	36,102	Level 3	Market approach - in this approach, the fair value of an asset by reference to the transaction information of comparable assets.
Debt instruments at FVTOCI (2017: classified as trade and bills receivables)	**32,129**	8,868	Level 2	Discounted cash flow - future cash flows discounted at a rate that reflects the credit risk of various counterparties.

37. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTOCI HK$'000
At 31 December 2017	—
Reclassification	36,102
Total gains:	
- in other comprehensive income	6,885
Exchange adjustments	(2,138)
At 31 December 2018	40,849

Fair value of financial instruments that are recorded at amortized cost

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in these consolidated financial statements approximate their fair values.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to fellow subsidiaries-non-trading in nature HK$'000 (Note 30)	Amount due to ultimate holding company-non-trading in nature HK$'000 (Note 30)	Total HK$'000
At 1 January 2018 (restated)	(577,972)	(1,935)	(579,907)
Consideration for acquiring subsidiaries under common control	548,407	—	548,407
Repayment to ultimate holding company	—	1,551	1,551
Repayment to fellow subsidiaries	1,976	—	1,976
Net effect of exchange rate changes	13,493	41	13,534
At 31 December 2018	(14,096)	(343)	(14,439)

39. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2018 HK$'000	2017 HK$'000 (Restated)
Within one year	14,157	10,564
In the second to fifth year inclusive	6,233	14,530
	20,390	25,094

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

The Group as lessor

Property rental income earned during the year was HK$58,675,000 (2017: HK$49,727,000). All of the properties held have committed tenants for the next year.

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

	2018 HK$'000	2017 HK$'000 (Restated)
Within one year	1,625	1,800
In the second to fifth year inclusive	2,454	1,343
	4,079	3,143

40. RETIREMENT BENEFITS SCHEMES

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

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

The total contributions in respect of the current period charged to consolidated statement of profit or loss amounted to approximately HK$144,156,000 (2017: HK$126,188,000).

41. RELATED PARTY TRANSACTIONS/BALANCES

Apart from the amounts due from and to related parties as disclosed in Notes 29 and 30, respectively, the Group had entered into the following related party transactions during the year:

	Ultimate holding company		Fellow subsidiaries	
	2018 HK$'000	2017 HK$'000 (Restated)	**2018 HK$'000**	2017 HK$'000 (Restated)
Sales of goods	**12**	2,215	**225,957**	217,350
Services income	**—**	864	**509,949**	265,538
Property rental and related management service income	**8,031**	7,109	**48,815**	38,586
Interest income	**—**	—	**—**	4,036
Purchase of goods	**—**	633	**56,142**	48,172
Sales commission expenses	**—**	26	**6,897**	4,429
Property rental and related management service expenses	**458**	1,290	**9,191**	8,141

In addition, during the year ended 31 December 2018, certain operating lease rentals in respect of office premises and staff quarters amounted to HK$4,297,000 (2017: HK$10,908,000) were under operating leases signed by ultimate holding company on behalf of subsidiaries of the Group with third parties.

Compensation of key management personnel

The remuneration of directors and chief executives during the year are set out in Note 12, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the material principal subsidiaries of the Company at 31 December 2018 and 2017 were as follows:

Name of company	Form of business structure	Place of incorporation/ registration	Class of share held	Paid up issued ordinary share capital/registered capital		Proportion of interest held by the Company				Principal activities
				2018	2017	2018 Directly	2018 Indirectly	2017 Directly	2017 Indirectly	
Inspur Shandong Electronics Information Limited 浪潮(山東)電子信息有限公司	Wholly foreign owned enterprises ("WFOE")	PRC	Capital contribution	US$90,675,000	US$90,675,000	–	100%	–	100%	Investment holding
Jinan Qiyi Information Technology Limited 濟南啟益信息科技有限公司	WFOE	PRC	Capital contribution	RMB5,000,000	RMB5,000,000	–	100%	–	100%	Investment holding
Inspur Worldwide (Shandong) Service Limited 浪潮世科(山東)信息技術有限公司	WFOE	PRC	Capital contribution	US$2,317,300	US$2,317,300	–	100%	–	100%	Provision of other software services software development services and trading of computer products
Inspur Genersoft# 浪潮通用軟件有限公司	Domestic limited liability company ("DLLC")	PRC	Capital contribution	RMB100,000,000	RMB100,000,000	–	100%	–	100%	Software development
Shandong Inspur Cloud Network Information System Limited 山東浪潮雲網信息系統有限公司	DLLC	PRC	Capital contribution	RMB10,000,000	RMB10,000,000	–	100%	–	100%	Software development
Shandong Inspur Genersoft Information Technology Limited 山東浪潮通軟信息科技有限公司	DLLC	PRC	Capital contribution	RMB18,000,000	RMB18,000,000	–	100%	–	100%	Software development
Shandong Inspur Financial Software Information Limited 山東浪潮金融軟件信息有限公司	DLLC	PRC	Capital contribution	RMB35,000,000	RMB35,000,000	–	85.7%	–	85.7%	Software development
Inspur (HK) Cloud Service Limited 浪潮(香港)雲服務有限公司	Incorporated	HK	Ordinary	HK$10,140	HK$10,140	–	100%	–	100%	Dormant
Jinan Inspur Mingda Information Technology Limited 濟南浪潮銘達信息科技有限公司	DLLC	PRC	Capital contribution	RMB200,000,000	RMB200,000,000	–	100%	–	100%	Holding of investment property
Tianyuan Communications 浪潮天元通信信息系統有限公司	SFOE	PRC	Capital contribution	RMB50,000,000	RMB50,000,000	–	75.99%	–	51%	Software development
Tianyuan Network 北京市天元網絡技術股份有限公司	DLLC	PRC	Capital contribution	RMB66,750,000	RMB66,750,000	–	75.99%	–	51%	Software development

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

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

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

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position

	At 31 December	
	2018	2017
	HK$'000	HK$'000
Non-current asset		
Interests in subsidiaries	**790,214**	754,780
Current assets		
Amounts due from subsidiaries	**855,197**	548,020
Other current assets	**200**	173
Bank balances	**13,282**	2,756
	868,679	550,949
Current liabilities		
Other payables	**9,894**	9,599
Amounts due to subsidiaries	**106,491**	211,902
	116,385	221,501
Net current assets	**752,294**	329,448
Total assets less current liabilities	**1,542,508**	1,084,228
Capital and reserves		
Share capital (Note 31)	**11,389**	9,527
Reserves	**1,531,119**	1,074,701
	1,542,508	1,084,228

Movement in the Company's capital and reserves

	Share capital HK$'000	Reserves HK$'000	Total HK$'000
At 1 January 2017	9,015	1,013,342	1,022,357
Loss for the year and total comprehensive expense	—	(26,618)	(26,618)
Issuance of shares upon exercise of share options	512	81,354	81,866
Dividend paid	—	(27,046)	(27,046)
Recognition of equity-settled share-based payment (Note 32)	—	33,669	33,669
At 31 December 2017	9,527	1,074,701	1,084,228
Loss for the year and total comprehensive expense	—	(88,819)	(88,819)
Issuance of shares upon exercise of share options	1,862	526,902	528,764
Dividend paid	—	(28,582)	(28,582)
Recognition of equity-settled share-based payment (Note 32)	—	46,917	46,917
At 31 December 2018	**11,389**	**1,531,119**	**1,542,508**

FINANCIAL SUMMARY

	For the year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000 (Restated)	**2018** **HK$'000**
RESULTS					
Continuing operations					
Revenue	891,082	971,659	1,163,170	1,965,150	**2,442,616**
(Loss) profit before tax	(67,901)	(4,609)	87,737	184,164	**363,119**
Income tax expenses	(2,268)	(12,920)	(27,163)	(23,267)	**(18,672)**
(Loss) profit for the year from continuing operations	(70,169)	(17,529)	60,574	160,897	**344,447**
Discontinued operations					
Profit for the year from discontinued operations	974	22,896	—	—	**—**
(Loss) profit for the year	(69,195)	5,367	60,574	160,897	**344,447**
(Loss) profit for the year attributable to:					
Owners of the Company	(68,079)	6,994	59,893	139,201	**324,030**
Non-controlling interests	(1,116)	(1,627)	681	21,696	**20,417**
	(69,195)	5,367	60,574	160,897	**344,447**

	At 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000 (Restated)	**2018** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	2,937,207	2,632,524	2,658,157	3,861,005	**3,681,696**
Total liabilities	(1,091,269)	(841,772)	(923,566)	(2,057,979)	**(1,628,599)**
	1,845,938	1,790,752	1,734,591	1,803,026	**2,053,097**
TOTAL EQUITY					
Equity attributable to owners of the Company	1,842,995	1,789,587	1,734,331	1,901,483	**2,053,941**
Non-controlling interests	2,943	1,165	260	(98,457)	**(844)**
	1,845,938	1,790,752	1,734,591	1,803,026	**2,053,097**

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