



2019
INTERIM REPORT
中期報告

inspur 浪潮

浪潮國際有限公司

INSPUR INTERNATIONAL LIMITED

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

(股份代號 Stock Code : 596)



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EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Dong Hailong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Chan Wing
Mr. Zou Bo

COMPLIANCE OFFICER

Mr. Dong Hailong

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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WEBSITE

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MAIN BOARD STOCK CODE

596

FINANCIAL REVIEW

During the period ended 30 June 2019 under review, the revenue of the Group is mainly derived from the PRC business and is denominated in Renminbi. Due to the devaluation of the average translation exchange rate during the period, the turnover in presented Hong Kong Dollars is impaired about 6.5%. During the same period of last year, due to acquisition of Inspur Tianyuan Communications, the comparatives of last year were restated.

Although the economic situation is not optimistic, the Group's revenue during the period ended 30 June 2019 reached new heights and made a new breakthroughs in the cloud services business transformation. During the period, our Group's revenue increased 24.7% and gross profit margin increased 25.7% compared with last corresponding period.

(1) Revenue from Cloud Services increased sharply

During the reporting period, the Group recorded a revenue of HK\$1,391,174,000 (2018 restated: HK\$1,115,311,000) representing an increase of 24.7% as compared with last same period. The revenue from Cloud Services for the period was HK\$160,569,000 (2018 restated: HK\$78,575,000), representing an increase of 104.4 % comparatively. The revenue from Enterprise Resource Management for the period was HK\$1,043,512,000 (2018 restated: HK\$900,323,000), representing an increase of 15.9% as compared with last same period. The revenue from the Internet of things was HK\$187,093,000 (2018 restated: HK\$136,413,000), representing an increase of 37.2% as compared year-on-year. Revenue from cloud services weighted 11.5% of total revenue and was the new growth driven.

(2) Gross profit from operations increased sharply

During the reporting, gross profit of the Group was HK\$513,160,000 (2018 restated: HK\$408,356,000), representing an increase of 25.7% as compared with last same period. The Group's gross profit margin was 36.9% (2018 restated: 36.6%). The year-to-year increase in gross profit margin was mainly due to: 1) Portion from high-margin cloud service business was increased and driven overall gross margin growth; 2) Although the competition is still fierce, due to the improvement in product delivery efficiency, the gross profit margin of the management software business keeps improving constantly.

(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\$475,185,000 (2018 restated: HK\$400,989,000), representing an increase of 18.5% as compared with last same period. The expense increasing is mainly due to aggressive expansion in cloud services business and more recruitment of R&D and marketing staffs to expand our business scale. Finally the overall staff cost of the Group has increased.

(4) Other incomes and other gains and losses

During the reporting period, the other incomes and other gains and losses amounted to HK\$70,825,000 (2018 restated: HK\$92,287,000) reducing 23.3% as compared with last same period. The main reasons are: 1) bank interest income decreased 60.9% comparatively to about HK\$8,369,000 (2018 restated: HK\$21,404,000) because of reduction in currency deposit after payment of Inspur Tianyuan Communication acquisition, 2) refund from VAT was reduced 11.6% to HK\$29,257,000 (2018 restated: HK\$33,080,000) because of VAT tax reform, 3) an amount of HK\$3,087,000 (2018 restated: HK\$13,491,000) from government subsidies and grants were received and recognized as income, which represented a decline of 77.1% as compared with last same period.

MANAGEMENT DISCUSSION AND ANALYSIS

(5) Segment profit of our business of the Company increased

During the reporting period, segment profit of the business was approximately HK\$104,128,000 (2018 restated: HK\$93,409,000) representing a 11.5% increase comparatively. Main reasons were: (1) the segment profit from ERM business was about HK\$143,101,000(2018 restated: HK\$113,556,000) representing an increase of 26% compared with last same period, (2)segment of cloud services business recorded in loss, which set-off the part of increase in profit from ERM business.

(6) Profit attributable to owners of the company maintains steady

During the reporting period, net profit attributable to the owners of the Company was HK\$113,236,000 (2018 restated: HK\$135,490,000), representing 16.4% decrease comparatively, mainly due to: 1) During the reporting period, because of the impact from the economic situation, the share of profit from an associate was about HK\$23,188,000(2018:HK\$61,394,000) and represented 62% decreased compared with last same period, 2) Segment profit from operation business was increased which set-off part of the reduction.

Basic earnings per share were HK\$9.94 cents (2018 restated: HK\$12.40 cents) and diluted earnings per share were HK\$9.77 cents (2018 restated: HK\$12.38 cents).

(7) Financial resources and liquidity

As at 30 June 2019, equity attributable to owners of the Company amounted to HK\$2,150,193,000 (at 31 December 2018: HK\$2,053,941,000). Current assets amounted to HK\$1,820,056,000 of which HK\$758,172,000 was bank deposits and cash balances which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses amounted to HK\$1,303,410,000. The Group's current assets were around 1.40 times over its current liabilities (31 December 2018: 1.38 times).

As at 30 June 2019 and 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. Our company's functional currency is Renminbi and accepts reporting currency as HK dollar. During the reporting period, due to the impact on exchange difference arising on translation of currency, the range of changes in figures represented in the reports is slightly less than the actual business operation results.

CAPTIAL STRUCTURE

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

EMPLOYEE INFORMATION

As at 30 June 2019, the Group had 4,942 employees. During the reporting period, total employees remuneration, including directors' remuneration and mandatory provident fund contributions amounted to approximately HK\$525,248,000.

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

CHARGES ON ASSETS

As at 30 June 2019, bank deposits in the amount approximately HK\$9,008,000 of the Group's assets was pledged (31 December 2018: HK\$22,589,000).

BUSINESS REVIEW

During the reporting period, the Group responded to the digital transformation needs of enterprises and focused on "Cloud+Data+AI". Through application of new technologies such as cloud computing, big data, Internet of Things, artificial intelligence and blockchain etc, we are fully accelerating the upgrade of management software products and cloud services. Inspur Cloud ERP as a new kinetic energy for enterprise transformation and upgrading aims to help customers build smart enterprises.

During the reporting period, the Group accelerated the transformation to the cloud, launched cloud products such as HCM Cloud 3.0 and PS Cloud 2.0 etc, established a digital transformation promotion alliance, and cooperated with partners to lead the enterprises' digital transformation. During the period, the Group deepened its large customer strategy and signed contracts with customers such as China Forestry, Guangzhou Water Supply, China Railway High-tech Industry, Tianjin Energy, Nanshan Holdings, Zhongtong Express, BAIC Motor, Donghao Lansheng and Weichai Power. In 2019, the company was recommended as the preferred supplier of China Supplier of China Finance Cloud. PS Cloud and Cloud Accounting won the award such as "2019 CIS Top Ten Innovative Products of the Year", "Excellent Solution for Industrial Internet APP of Ministry of Industry and Information Technology" and "Reliable Products for SME financial services of SME in 2019" etc. the brand and market influence of company is further enhanced.

1. Cloud service business

The Group provides comprehensive cloud services to enterprises of different scales and empowers Inspur's partners and enterprises to enhance their core competitiveness in the cloud era. During the reporting period, our revenue from cloud services business realised a rapid growth, amounted HK\$160,569,000 representing 104.4% growth comparatively.

1.1 Large enterprises market

During the reporting period, the company continued to optimize the large-scale enterprise digital platform GS Cloud, to increase the promotion of products such as financial cloud, capital cloud, human resource cloud, procurement cloud, collaborative cloud, travel cloud, tax management cloud, marketing cloud etc, and further promote the digital transformation of large enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the company responded to the transformation trend of enterprise human resource service and released a new version of the full SaaS human resource cloud (HCM Cloud 3.0). HCM Cloud 3.0 integrates multiple AI technologies, based on business scenario design, industry characterization design, and built-in human resource sharing framework, and meets the large-scale application needs of group companies. In the reporting period, Human Resource Cloud newly signed contracts with Lunan Pharmaceutical Group, Zhujiang Beer, Zhongmu Industrial, etc. The Human Resource Cloud product has accumulated 2.20 million registered users.

In the reporting period, the company's procurement cloud (iGo Cloud) is continuously optimized its internal and external services and accelerated the iterative research and development.

During the reporting period, the company further upgraded the smart enterprise collaborative cloud platform "cloud + intelligence", supported cross-enterprise communication, online enterprise cloud disk, intelligent customer service, task supervision and other applications, and also released the desktop version. During the reporting period, "cloud + intelligence" newly signed with customers such as Shanghai Construction Engineering, Guangzhou Water Supply etc, and accumulated more than 270 thousands registered users. IDC released the "Tracking Report for China Enterprise Team Collaboration Software Market for the Second Half of 2018", showing that in the Chinese enterprise team collaborative software SaaS model market, Inspur "cloud + intelligence" ranked in the top three.

1.2 Growth enterprise market

During the reporting period, the company launched a new generation of open source cloud ERP product "PS Cloud V2.0" for the growth enterprise market. The product includes standard SaaS applications, open source PaaS development platform and industry cloud solutions, forming strong applications in such as finance and supply chain etc. At the same time, it has signed contracts with more than 300 partners in business of sales, delivery, consulting, micro-services etc. The company newly signed with the industry head enterprises such as HFY-group, Overland, Macrolink Group and others. PS Cloud has more than 32,000 registered users. This product was awarded "Excellent solution for industrial internet APP" by the Ministry of Industry and Information Technology and also praised by SaaS customers with high satisfaction.

1.3 Small and micro enterprise market

During the reporting period, in the small and micro enterprise market, the company completed the professional online version of Inspur E-cloud online, and value-added tools. The Company cooperated with a number of banks to provide one-stop intelligent financial and taxation cloud service solutions for small and micro enterprises. During the reporting period, the number of users of Inspur E-cloud online platforms exceeded 1.35 million. Inspur E-cloud online platform won the "2018 Shandong Top Ten Service Brands", "2019 SME Financial SaaS Cloud Service Trustworthy Product" and many other awards.

2. Management Software Business

During the reporting period, industry coverage and customer base of the Group's management software business were further expanded. The company fully utilized its product advantages in the fields of financial sharing, intelligent manufacturing, enterprise big data, and network operation support system (OSS) to aggressively push the innovation of digital enterprise transformation and management in large enterprise group customers. The revenue from management software reached HK\$1,043,512,000, representing 15.9% year-on-year growth.

The Group adhered to the domestic shared service hotspots, released an integrated open platform, built a financial middle-end, enhanced the ability to integrate financial sharing with different business systems and financial systems, improved product intelligence, and newly added multiple robots handling scenarios such as accounts receivable, reconciliation, etc., and published the financial sharing center board integrated with the big data analysis. The company help the group enterprise customers to strengthen their management and control of subordinate operating units in vertical directions, to realize the integration of financial business horizontally, and to provide strong technical support for effective supervision and management decision-making.

During the reporting period, the company provided better intelligent manufacturing services for the manufacturing industry based on our new generation intelligent manufacturing all-in-one solution "Intelligent Manufacturing +" and Manufacturing Operations Management (MOM) products. During the reporting period, the Group was rated as an excellent service unit for intelligent manufacturing. The intelligent manufacturing products also won the honor of "Best Solution of the year 2018-2019 for China Enterprise Information Market".

During the reporting period, the company released the enterprise intelligent open innovation platform EA-- "Enterprise Brain 3.0", which integrates new IT technologies such as artificial intelligence and big data. Enterprise Brain 3.0 automatically starts business processes based on rules-driven ERP systems to help enterprises achieve automation and intelligent upgrade. Zhengtong Coal Mine have been successfully applied. During the reporting period, the Smart Enterprise Application Promotion Group led by Inspur was selected into the next-generation artificial intelligence industry technology innovation strategic alliance.

Inspur Tianyuan Communication further deepens into the business of telecom operators. Our business based on network operation supporting system (OSS) and operation and maintenance services is further extended to telecom professional companies. The clients not only cover the headquarters of China Mobile, China Unicom, China Telecom and China Tower, but also 31 nation wide provincial-level companies. At the same time, the Company has newly signed with such as China Internet of Things, China Mobile Migu, China Mobile Online and China Telecom Research Institute. Benefiting from the urgent need of telecom operators to develop industrial internet services, the software business of Inspur Tianyuan Communication will continue to expand and to achieving steady growth in revenue of software business.



3. Internet of Things (IoT) solutions

During the reporting period, Our Group's IoT business mainly covers the Grain industry and communication industry and realized revenue of HK\$187,093,000, representing 37.2% year-on-year growth.

For the grain and agriculture industry, the Group provides intelligence all-in-one grain solution to grain authorities at all levels and grain-related enterprises and grain depots of large, medium, small and micro-scale. During the reporting period, we launched Intelligent Granary Robot and other products. The Company won the bids for the large-scale grain industry project such as the Inventory check system of National Grain and Material Reserve Bureau, the Intelligent Grain Storage System of Heilongjiang Provincial Reserve Grain Management Co., Ltd., and intelligent upgrading project of the Shanghai Liangyou (Group) Co., Ltd. and Shanghai municipal grain storage etc. The business integration with the acquisition of Zhengzhou Hualiang Technology (China Grain Network) is progressing smoothly.

For the communication industry, during the reporting period, based on the "connection+ scenario", the Group further promoted cooperation with China Mobile IoT Company, and comprehensively cooperated in IoT business covered with data centers, platforms, data and applications. Facing every province and a number of industry enterprises, we provide digitalization of industries solution to traditional industries, provide digital industrialized cooperative operation support services for new industry enterprises. The Company utilized telecom operators' network connections and combined with Inspur cloud computing, big data, artificial intelligence and other technologies to integrate massive quantities, multi-source heterogeneous data to provide intelligent end-to-end industry application services. With the advent of the 5G era, "connection + scenario" services will be applied in more industries, and telecom operators will open up the needs of government and enterprise markets. More urgently, the scope of cooperation with operators will be further increased, and the cooperation will be deepened, and the market prospects are full of imagination.

BUSINESS PLAN

In 2019, the company will strengthen its high-end advantages, accelerate its development in the cloud transformation, increase investment in building a cloud ERP product platform, deepen the operation in large customers, and consolidate high-end advantages. At the same time, accelerate the transition to the cloud, significantly increase the proportion of cloud business, help enterprises to go to the cloud platform, and create a new engine for enterprise digital transformation. In the future, relying on its parent company Inspur Group with its full presence of IaaS-PaaS-SaaS and the influence of Inspur brand, and together with the partners to continuously create new technologies, new applications, new modules, and develop enterprise brains with big data and AI, the Company will help the construction of smart enterprises. In the foreseeable future, the Group has become a leader in enterprise management software and cloud services in China.

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

As at 30 June 2019, the interests and short positions of the directors and the chief executive and their associates in the shares and underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code contained in the Listing Rules were as follows:

(a) Long positions in the shares of the Company

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

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

Name of director	Capacity	Description of equity derivatives	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
			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 the Share Option Scheme.

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

Save as disclosed above, as at 30 June 2019, 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 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, the following shareholders other than the directors of the Company had notified the Company of relevant interests in the issued capital of the Company.

Long position in shares and underlying shares of the Company

Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Type of Interests	Number of issued ordinary shares held	Percentage of the issued share capital of 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 30 June 2019, no persons have any other relevant interests or short positions in shares or underlying shares of equity derivatives of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTEREST

During the six months ended 30 June 2019, none of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 23 November 2018. On 1 December 2017, a total of 30,000,000 share options were grant to certain employees and directors of the group under the 2008 option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK\$2.06 per share. On 16 October 2018, a total of 30,000,000 share options were grant to certain employees and directors of the group under the 2008 option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK\$3.16 per share. As at 30 June 2019, the numbers of shares available for issue and remained outstanding under the option scheme are 25,600,000 shares.

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 30 June 2019, save as:

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model code for Securities Transactions by directors of Listing Issuers ("Model Code") contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors and has been confirmed that all directors have complied with the Model Code during the six months ended 30 June 2019.

By Order of the Board
Inspur International Limited
Chairman
Wang Xingshan

Hong Kong, 16 August 2019

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



CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	NOTES	Six months ended	
		30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Revenue	3	1,391,174	1,115,311
Cost of sales		(878,014)	(706,955)
Gross profit		513,160	408,356
Other income	4	70,802	92,374
Other gains and losses		23	(87)
Impairment losses, net of reversal	11	(18,063)	(2,750)
Administrative expenses		(277,134)	(241,519)
Selling and distribution expenses		(198,051)	(159,470)
Financial costs		(1,027)	(13,504)
Change in fair value of investment properties		424	8,702
Share of profit of an associate		21,256	65,861
Share of profit (loss) of a joint venture		1,931	(4,467)
Profit before tax		113,321	153,496
Income tax expenses	5	(1,639)	(3,171)
Profit for the year	6	111,682	150,325
Profit for the year attributable to owners of the Company		113,236	135,491
Profit for the year attributable to non-controlling interests		(1,554)	14,834
Earnings per share			
– Basic (HK cents)	8	9.94	12.40
– Diluted (HK cents)		9.77	12.38

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

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INSPUR INTERNATIONAL LIMITED

	Six months ended	
	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Profit for the year	111,682	150,325
Other comprehensive income (expense):		
<i>Items that will not be reclassified to profit or loss:</i>		
Gain on revaluation upon transfer from property, plant and equipment to investment properties	17,323	—
Share of other comprehensive (expense) income of an associate and a joint venture	(695)	—
Exchange differences arising on translation to presentation currency	2,482	(57,314)
	<u>130,792</u>	<u>93,011</u>
Total comprehensive income for the year	<u>130,792</u>	<u>93,011</u>
Total comprehensive income for the year attributable to:		
– Owners of the Company	128,569	79,460
– Non-controlling interests	2,223	13,551
	<u>130,792</u>	<u>93,011</u>



CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	NOTES	30/06/2019 HK\$'000	31/12/2018 HK\$'000
Non-current assets			
Property, plant and equipment		475,870	505,430
Investment properties		895,787	826,697
Prepaid lease payments		—	56,773
Right-of-use assets		66,538	—
Other intangible assets		41,576	19,986
Equity instrument at FVTOCI		40,815	40,849
Interest in an associate		320,387	299,715
Interest in a joint venture		98,616	96,796
Advance payment for interest in a subsidiary		—	19,358
Deferred tax assets		1,132	—
Goodwill		10,242	—
		<u>1,950,963</u>	<u>1,865,604</u>
Current assets			
Inventories		13,140	16,194
Trade and bills receivables	9	344,273	281,149
Debt instruments at FVTOCI		18,076	32,129
Prepaid lease payments		—	1,445
Prepayments, deposits and other receivables		124,547	76,556
Contract assets	10	263,398	191,885
Financial assets at fair value through profit or loss ("FVTPL")		33	34
Amount due from ultimate holding company	9	7,813	5,368
Amounts due from fellow subsidiaries	9	281,596	323,562
Pledged bank deposits		9,008	22,589
Bank balances and cash		758,172	865,181
		<u>1,820,056</u>	<u>1,816,092</u>
Current liabilities			
Trade payables	12	260,343	180,653
Other payables, deposits received and accrued expenses		386,261	482,274
Contract liabilities		478,100	511,281
Amount due to ultimate holding company	12	1,461	1,079
Amounts due to fellow subsidiaries	12	50,354	76,132
Deferred income - government grants		94,282	45,317
Tax liability		26,594	20,986
Lease liabilities - current		6,015	—
		<u>1,303,410</u>	<u>1,317,722</u>
Net current assets		<u>516,646</u>	<u>498,370</u>
Total assets less current liabilities		<u>2,467,609</u>	<u>2,363,974</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

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INSPIUR INTERNATIONAL LIMITED

	NOTES	30/06/2019 HK\$'000	31/12/2018 HK\$'000
Non-current liabilities			
Deferred income - government grants		31,006	79,307
Deferred tax liabilities		222,923	231,570
Lease liabilities		8,683	—
		<u>262,612</u>	<u>310,877</u>
		<u>2,204,997</u>	<u>2,053,097</u>
Capital and reserves			
Share capital	13	11,389	11,389
Reserves		<u>2,138,804</u>	<u>2,042,552</u>
Equity attributable to owners of the Company		<u>2,150,193</u>	<u>2,053,941</u>
Non-controlling interests		<u>54,804</u>	<u>(844)</u>
Total equity		<u>2,204,997</u>	<u>2,053,097</u>



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to owners of the Company											Non-controlling interests HK\$'000	Total HK\$'000
	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	Subtotal HK\$'000			
At 1 January 2018	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	—	—	—	—	—	—	—	—	135,491	135,491	14,834	150,325	
Other comprehensive income	—	—	—	—	—	(56,031)	—	—	—	(56,031)	(1,283)	(57,314)	
Total comprehensive income for the year	—	—	—	—	—	(56,031)	—	—	135,491	79,460	13,551	93,011	
Contribution by non-controlling interest	—	—	—	—	—	—	—	—	—	—	10,261	10,261	
Dividend paid	—	—	—	—	—	—	—	—	(28,582)	(28,582)	—	(28,582)	
Recognition of equity-settled share-based payments	—	—	—	—	6,780	—	—	—	—	6,780	—	6,780	
	—	—	—	—	6,780	(56,031)	—	—	106,909	57,658	23,812	81,470	
At 30 June 2018	9,527	1,034,431	(132,197)	92	16,207	69,061	84,395	16,236	882,691	1,980,443	(76,769)	1,903,674	
At 1 January 2019	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	
Profit for the year	—	—	—	—	—	—	—	—	113,236	113,236	(1,554)	111,682	
Other comprehensive (expense) income	—	—	—	—	—	2,169	13,164	—	—	15,333	3,777	19,110	
Total comprehensive (expense) income for the year	—	—	—	—	—	2,169	13,164	—	113,236	128,569	2,223	130,792	
Contribution by non-controlling interest	—	—	—	—	—	—	—	—	8,083	8,083	14,708	22,791	
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	38,717	38,717	
Dividend paid	—	—	—	—	—	—	—	—	(45,557)	(45,557)	—	(45,557)	
Recognition of equity-settled share-based payments	—	—	—	—	5,157	—	—	—	—	5,157	—	5,157	
	—	—	—	—	5,157	2,169	13,164	—	75,762	96,252	55,648	151,900	
At 30 June 2019	11,389	1,561,333	(392,546)	92	61,501	23,228	119,991	(380,797)	1,146,002	2,150,193	54,804	2,204,997	

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 (UNAUDITED)

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INSPUR INTERNATIONAL LIMITED

	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
NET CASH FROM OPERATING ACTIVITIES	(108,921)	(47,282)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	23,434	3,845
NET CASH USED IN FINANCING ACTIVITIES	(22,127)	(52,732)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(107,614)	(96,169)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	865,181	1,391,022
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	605	(8,453)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD BANK BALANCE AND CASH	<u>758,172</u>	<u>1,286,400</u>



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 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 software development, cloud services and Internet of Things (IoT).

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office and dormitory that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets (continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

Applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

As a lessor (continued)

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease. No new contract containing the lease was found.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$17,600,000 and right-of-use assets of HK\$75,818,000 at 1 January 2019.

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Application of new and amendments to HKFRSs** (continued)2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)***2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*****As a lessee (continued)***

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	20,390
Lease liabilities discounted at relevant incremental borrowing rates	19,727
Less: Recognition exemption - short-term leases	(11,436)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	8,291
Lease liabilities as at 1 January 2019	8,291
Analysed as	
Current	4,075
Non-current	4,216
	8,291

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		8,291
Reclassified from prepaid lease payments	(a)	58,218
		<u>66,509</u>
By class:		
Leasehold lands		58,218
Land and buildings		8,291
		<u>66,509</u>

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$1,445,000 and HK\$56,773,000 respectively were reclassified to right-of-use assets.

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Application of new and amendments to HKFRSs** (continued)*2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)***2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*****As a lessor***

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current Assets				
Prepaid lease payments	(a)	1,445	(1,445)	—
Right-of-use asset		—	66,509	66,509
Current Assets				
Prepaid lease payments	(a)	56,773	(56,773)	—
Current Liabilities				
Lease liabilities - current		—	(4,075)	(4,075)
Non-current liabilities				
Lease liabilities		—	(4,216)	(4,216)

2.2 Significant changes in significant judgements and key sources of estimation uncertainty

- Lease or service
- Determination on lease term of contracts with renewal options

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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INSPUR INTERNATIONAL LIMITED

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June 2019			Consolidated HK\$'000
	Cloud services HK\$'000	Management software HK\$'000	Internet of things (IoT) solution HK\$'000	
Segment revenue	160,569	1,043,512	187,093	1,391,174
Segment profit	(45,197)	143,101	6,224	104,128
Unallocated other income, gains and losses, net				32,209
Change in fair value of investment properties				424
Share of profit of an associate				21,256
Share of profit of a joint venture				1,931
Share-based payments				(5,157)
Unallocated administrative costs				(22,777)
Impairment losses, net of reversal				(18,063)
Financial costs				(630)
Profit before tax				113,321

	Six months ended 30 June 2018			Consolidated HK\$'000
	Cloud services HK\$'000	Management software HK\$'000	Internet of things (IoT) solution HK\$'000	
Segment revenue	78,575	900,323	136,413	1,115,311
Segment profit	(23,116)	113,556	2,969	93,409
Unallocated other income, gains and losses, net				26,700
Change in fair value of investment properties				8,702
Share of profit of an associate				65,861
Share of loss of a joint venture				(4,467)
Share-based payments				(6,780)
Unallocated administrative costs				(25,346)
Impairment losses, net of reversal				(2,750)
Financial costs				(1,833)
Profit before tax				153,496

4. OTHER INCOME

	Six months ended	
	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Other income:		
Interest income on bank deposits	2,663	3,988
Interest income on financial assets at FVTPL	5,706	17,416
VAT refund	29,257	33,080
Government subsidies and grants	3,087	13,491
Rental income	29,746	24,263
Others	343	136
	<u>70,802</u>	<u>92,374</u>

5. INCOME TAX EXPENSES

	Six months ended	
	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Current tax:		
PRC EIT	3,867	2,225
Under provision in prior year		
PRC EIT	(2,068)	382
Deferred taxation	(160)	564
	<u>1,639</u>	<u>3,171</u>

6. PROFIT FOR THE PERIOD

	Six months ended	
	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expense in cost of sales	166,384	121,939
Depreciation for property, plant and equipment	13,577	18,435
Amortisation for other intangible assets	1,873	1,092

7. DIVIDENDS

The Board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

8. 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:

	Six months ended	
	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
<u>Earnings</u>		
Profit for the period attributable to the owners of the Company	113,236	135,491

	Six months ended	
	30/06/2019 '000	30/06/2018 '000
<u>Number of shares</u>		
Number of ordinary shares for the purpose of basic earnings per share	1,138,921	1,092,537
Effect of dilutive potential ordinary shares arising from the outstanding share options	20,281	2,010
Weighted average number of ordinary shares for the purpose of diluted earnings per share*	1,159,202	1,094,547

* The weighted average number of ordinary shares for the purpose of diluted earnings per share for the year ended 30 June 2018 has been adjusted on the assumption that the acquisition of Tianyuan Communication had been completed on 1 January 2018.

9. TRADE AND BILLS RECEIVABLES

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximated the revenue recognition date.

	30/06/19 HK\$'000	31/12/18 HK\$'000
0-30 days	163,111	182,716
31-60 days	32,016	22,607
61-90 days	10,658	4,574
91-120 days	30,934	10,763
121-180 days	34,145	19,187
Over 180 days	73,409	41,302
	<u>344,273</u>	<u>281,149</u>

The following is an aged analysis of amount due from fellow subsidiaries and ultimate holding company for the purchase of goods and services at the reporting date.

	30/06/19 HK\$'000	31/12/18 HK\$'000
Amounts due from fellow subsidiaries		
0-30 days	90,035	277,475
31-60 days	45,238	7,630
61-90 days	23,165	8,077
91-210 days	102,480	11,757
Over 210 days	20,678	18,623
	<u>281,596</u>	<u>323,562</u>

	30/06/19 HK\$'000	31/12/18 HK\$'000
Amounts due from ultimate holding company		
0-30 days	3,281	520
31-60 days	—	6
61-90 days	—	—
Over 90 days	4,532	4,842
	<u>7,813</u>	<u>5,368</u>

10. CONTRACT ASSETS

	30/06/19 HK\$'000	31/12/18 HK\$'000
Current-software development	263,398	191,885

11. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended	
	30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Impairment loss recognised/reversed in respect of		
trade receivables	7,138	965
contract assets	9,349	1,676
other receivables	1,576	109
	18,063	2,750

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

12. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date.

	30/06/19 HK\$'000	31/12/18 HK\$'000
Trade payables		
0-30 days	52,830	30,106
31-60 days	7,063	18,318
61-90 days	8,642	4,734
Over 90 days	191,808	127,495
	260,343	180,653

12. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of amount due to fellow subsidiaries and ultimate holding company for the purchase of goods and services at the reporting date.

	30/06/19 HK\$'000	31/12/18 HK\$'000
Amounts due to fellow subsidiaries		
0-30 days	2,707	38,112
31-60 days	5,874	13,527
61-90 days	346	397
Over 90 days	41,427	24,096
	<u>50,354</u>	<u>76,132</u>

	30/06/19 HK\$'000	31/12/18 HK\$'000
Amounts due to ultimate holding company		
0-30 days	293	98
31-60 days	22	—
61-90 days	13	—
Over 90 days	1,133	981
	<u>1,461</u>	<u>1,079</u>

13. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	30/06/2019 '000	30/06/2018 '000	30/06/2019 HK\$'000	30/06/2018 HK\$'000
Ordinary shares of HK\$0.01 each:				
Authorised	<u>2,000,000</u>	<u>2,000,000</u>	<u>20,000</u>	<u>20,000</u>
At beginning of year	<u>1,138,921</u>	<u>952,736</u>	<u>11,389</u>	<u>9,527</u>
At end of year	<u>1,138,921</u>	<u>952,736</u>	<u>11,389</u>	<u>9,527</u>

14. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial 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 as at		Fair value hierarchy	Valuation techniques and key inputs
	30/06/2019 HK\$'000	12/31/2018 HK\$'000		
Equity instrument at FVTOCI	40,815	40,849	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	18,076	32,129	Level 2	Discounted cash flow – future cash flows discounted at a rate that reflects the credit risk of various counterparties.

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.

15. ACQUISITION OF A SUBSIDIARY

On 14 January 2019, the Group acquired an 60% interest in Zhengzhou Hualiang Technology Co., Ltd. ("Zhengzhou Hualiang"). This acquisition has been accounted for using the purchase method. Zhengzhou Hualiang is principally engaged in the business of smart food solutions, E-commerce of agricultural and sideline products, information service, and development of software in PRC. The Acquisition can strengthen the Company's market position in the smart food industry and complement the existing business of the Group.

Consideration transferred

	HK\$'000
Cash	69,564
	<u>69,564</u>

Acquisition-related costs amounting to HK\$124,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the 'Administrative expenses' line item in the condensed consolidated statement of profit or loss.

Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	HK\$'000
<i>Current assets</i>	
Cash and cash equivalents	90,373
Trade and other receivables	20,287
Inventories	14,442
<i>Non-current assets</i>	
Property, plant and equipment	26,367
Other intangible assets	10,501
Deferred tax assets	1,154
<i>Current liabilities</i>	
Trade and other payables	23,948
Contract liabilities	25,262
Other payables, deposits received and accrued expenses	10,375
<i>Non-current liabilities</i>	
Deferred tax liabilities	3,766
	<u>99,773</u>

15. ACQUISITION OF A SUBSIDIARY (continued)

Non-controlling interests

The non-controlling interest (40%) in Zhengzhou Hualiang recognised at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to HK\$39,909,000.

Goodwill arising on acquisition (determined on a provisional basis)

	HK\$'000
Consideration transferred	69,564
Plus: non-controlling interests	39,909
Less: recognised amount of identifiable net assets acquired (100%)	(99,773)
Goodwill arising on acquisition	<u>9,700</u>

Goodwill arose on the acquisition of Zhengzhou Hualiang because the acquisition included the assembled workforce of Zhengzhou Hualiang and some potential contracts which are still under negotiation with prospective new customers as at the date of acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflows arising on acquisition

	HK\$'000
Consideration paid in cash	69,564
Less: cash and cash equivalent balances acquired	(90,373)
	<u>(20,809)</u>

Impact of acquisition on the results of the Group

Included in the loss for the interim period is HK\$4,194,000 attributable to Zhengzhou Hualiang. Revenue for the interim period includes HK\$77,088,000 is attributable to Zhengzhou Hualiang.

Had the acquisition of Zhengzhou Hualiang been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six months ended 30 June 2019 would have been HK\$77,088,000 and the amount of the loss for the interim period from continuing operations would have been HK\$4,194,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and loss of the Group had Zhengzhou Hualiang been acquired at the beginning of the interim period, the directors of the Company calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

16. RELATED PARTY TRANSACTIONS/BALANCES

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

	Note	Six months ended	
		30/06/2019 HK\$'000	30/06/2018 HK\$'000 (Restated)
Supply Transactions	(i)	35,602	14,843
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	372,962	176,843
(2) The related commission amount		3,719	1,769
Purchase Transactions	(iii)	19,032	18,972
Common Services Transactions	(iv)	5,794	6,163
Leasing Services Transactions	(v)	27,329	20,994

Notes:

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

The logo 'inspur 浪潮' is displayed in white on the top left of a large server rack. The rack itself is filled with a grid of glowing blue lights, representing data or server activity. The background is a deep blue gradient with stylized server racks and glowing circuit lines.The logo 'inspur 浪潮' is displayed in blue on a white background. The 'inspur' part is in a bold, italicized sans-serif font, while '浪潮' is in a traditional Chinese font. The background of the entire image features a stylized cityscape of server racks and glowing blue circuit lines.