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)

2019
ANNUAL REPORT
年 度 報 告

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

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
Registered Public Interest Entity Auditors

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
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MAIN BOARD STOCK CODE

596

CHAIRMAN'S STATEMENT

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 2019.

FINANCIAL SUMMARY

During the year under review, our group maintained steady development and total revenue was HK$2,897,694,000 (2018: HK$2,442,616,000), representing an increase of 18.6% compared with last year. Excluding the impact of investment income, the main operating profit recorded a 10.2% decrease comparatively because of the loss from cloud service business increased year-on-year While share of the profit from associations was significantly dropped, our group's net profit recorded an obvious decline compared with last year. Profit attributable to owners of the Company during the year was about HK$203,059,000, reduced approximately 37.3% compared with HK$324,030,000 in 2018.

Basic earnings per share attributable to owners of the Company during the year were approximately 17.83 HK cents (2018: 29.09 HK cents) and diluted earnings per share were 17.59 HK cents (2018: 29.01 HK cents).

BUSINESS REVIEW AND OUTLOOK

In 2019, the company kept up with industry development trend and unwaveringly transformed into an enterprise cloud service provider. During the reporting period, the company released iGIX platform which layed a solid foundation for its future business development. Presently the cloud service business is still in a rapid growth period and recorded a temporary loss because of inputs in R&D and market expansion. Our management software business still maintained at a stable profit rate. Overall, our operating business has achieved a balanced development.

In 2020, the outbreak of new coronavirus epidemic has brought challenge to the development of enterprises and entire industry. Facing this sudden and an uncertain event of epidemic, the enterprises' inevitable choices were to speed up transforming to perceptive and agile organization, to solid digital foundation and support and upgrade enterprises' digital core abilities. "Two centers and one cost" has become the focus and main activity of the enterprise to fight against epidemic and resume production. The epidemic has accelerated the pace of enterprise cloud and digital transformation, spawned new management concepts and models, and the instantaneous demand for various types of cloud digital tools erupted. Two center concept mainly considers about the following: the First is about employees, such as remote collaborative office, online attendance, online recruitment, which helps to grasp the real-time and actual physical and working situation of employee. Digital means realized the online reconstruction of business process such as recruitment, onboarding, training and office etc., and also meet the temporary needs of business processes such as employee shuttle travel and working meal reservations under the influence of the epidemic. Digital people-oriented applications help employees to realize the worry-free work. The Second is about customers such as digital marketing, online services, e-com etc. Through online and offline combining, the customers could have multi-point insights to acquire new customer, retain old customer and improve customer experience. Based on customer-centric and business model transformation, the company will open up new business streams and the last word is increasing revenue. The Third is about enterprise, such as financial sharing, e-procurement, logistic and supply chain, smart manufacturing etc. through using digital tools could minimize the loss caused by epidemic. The enterprise should pay more attention to value-oriented basic management, fully use the functions of management accounting tools, strengthen data, computing power, models, algorithms in all aspects of the ability to achieve the intelligent production and management. In the post-epidemic era, the explosive demand generated by enterprises for digital tools and the resulting usage habits, working models, and digital awakening will continue and deepen, and data-cloud-intelligence service started ushering in historic development opportunity.

CHAIRMAN'S STATEMENT

In 2020, the company will continue to enhance our technology abilities in cloud, data, intelligence etc. to assist our customers speed up digital transformation and improve their strategic response and actual combat abilities and be the intelligent enterprises. The company is carrying forward 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 transformation development. Our future business performance keeps on steadily improving, and this success is inseparable from the supports of shareholders, the guidance from the board of directors, the efforts of 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 the continuous support. I would also like to thank all the staffs for their valuable contributions to the Group during the past year.

Wang Xingshan
Chairman

Hong Kong, 30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2019, our Group is continuing to make the breakthrough in cloud business transformation. Due to the rapid growth of cloud service business, the revenue of the Group achieved an increase approximately 18.6% and gross profit got around 10.2% growth as compared with last corresponding period.

(1) Revenue

During the reporting period, the Group recorded a revenue of HK$2,897,694,000 (2018: HK$2,442,616,000) representing an increase of 18.6% as compared with last year. Our revenue mainly come from our business in China and operates in Renminbi. The revenue if accounted in RMB represented 23.9% growth comparatively. Among them, the revenue of cloud service business was HK$387,910,000 (2018: HK$185,050,000),recorded 109.6% growth (119.0% growth accounted in RMB) compared with last corresponding period, the revenue of cloud service business weighted 13.4% of total revenue and became new growth driven and main growth comes from big enterprises' market; revenue of management software for the year was HK$1,969,121,000 (2018: HK$1,922,472,000), representing an increase of 2.4% (7.0% growth accounted in RMB) and the revenue of the Internet and of things (IoT) was HK$540,663,000 (2018: HK$335,094,000), representing an increase of 61.3% (68.5% growth accounted in RMB) as compared with last year, growth mainly from the increasing orders from telecom clients and large SOE.

(2) Gross profit

During the reporting period, gross profit of the Group was HK$1,034,556,000 for the year (2018: HK$938,764,000), representing an increase of 10.2% as compared with last year. The Group's gross profit margin was 35.7% (2018: 38.4%). The decrease in gross profit margin was mainly due to growth in low margin IoT business.

(3) Selling and distribution, administrative expense and R&D expense

During the reporting period, adminstration expenses amounted to HK$303,699,000 (2018: HK$378,036,000), representing a decrease of 19.7% as a result of strict control on the function expense and improving management efficiency. The research and development (R&D) expense was HK$242,946,000 (2018: HK$152,304,000) and incrased 59.5% compared with last year, mainly due to aggressive inputs in the R&D of cloud service business.

During the period, the selling and distribution expenses was HK$469,504,000 (2018: HK$381,565,000), increasing 23% compared with the last corresponding period, mainly due to actively expand in cloud service business, enlarge in market size and so increase the group's overall expense.

(4) Other income and other gains and losses

During the year, the other income and other gains and losses amounted to HK$165,297,000 (2018: HK$196,457,000) meaning a decrease of 15.9% as compared with last year mainly due to: 1) Because the bank deposit was reduced after settlement of the acquisition of Tianyuan, the bank interest income was HK$15,617,000 (2018: HK$24,767,000), representing a 36.9% decrease comparatively; 2) During the reporting period, because of the reduction of VAT tax rate, the refund from software VAT was reduced 17.2% to HK$66,077,000 (2018: HK$79,810,000);3) Recognised government grants was reduced 39.8% compared with the last year to HK$16,249,000 (2018: HK$26,972,000).

MANAGEMENT DISCUSSION AND ANALYSIS

(5) Investment income from associates and joint venture

During the reporting period, share of profit of associates was HK$42,092,000 (2018: HK$191,287,000) and reduced 78% compared with the last year because the profit of an associats dropped significantly as a results of the impact of economic environment, production plan, and etc. During the period, share of the profit of a joint venture was improved and recorded profit HK$3,280,000 (2018: loss HK$42,842,000) because one-off assets impairment loss was recorded in last year and operating performance was improved in this period.

(6) Profit before tax

During the period, profit before the tax was approximately HK$192,834,000 (2018: HK$363,119,000), representing a 46.9% decline as compared with last year. Main reasons were: 1) Share of profit of associats reduced HK$149,195,000 comparatively; 2) Despite facing fierce market competition, operating profit of segment of management software business recorded 3.1% growth to HK$262,314,000(2018: HK$254,350,000); 3) Operating loss of the segment of cloud was HK$130,172,000 (2018: loss HK$46,706,000) and expanded 178.7% comparatively; (4) Operating profit of IoT segment reduced 86.6% to HK$1,681,000 compared with 2018 (2018: HK$12,567,000) because of the inventory impairment. After setting-off the operating loss increase of cloud service business and decline in operating profit of IoT segment with the increasing profit of the management software business, the overall segment profit decreased 39.2% to HK$133,823,000 (2018: HK$220,211,000) comparatively.

(7) Income tax expenses

During the reporting period, the income tax expense reduced to HK$1,933,000 (2018: HK$18,672,000) because of the profit decline.

(8) Profit for the year attributable to owners of the Company

During the reporting period, net profit attributable to owners of the Company for the year was approximately HK$203,059,000 (2018: HK$324,030,000), representing a 37.3% decrease compared with last year. Main reasons were: 1) in the period, share of profit of associats and a joint venture was HK$45,372,000 (2018: HK$148,445,000) and reduced 69.4% compared with the last year; 2) Our group kept promoting the cloud service business transformation, however operating loss of this segment increased comparatively.

Basic earnings per share were 17.83 HK cents (2018: 29.09 HK cents) and diluted earnings per share were 17.59 HK cents (2018: 29.01 HK cents).

(9) Financial resources and liquidity

As at 31 December 2019, equity attributable to owners of the Company amounted to HK$2,025,920,000 (at 31 December 2018: HK$2,053,941,000). Current assets amounted to HK$1,951,169,000 of which HK$807,125,000 were bank deposits and cash balances which were mainly denominated in Renminbi.

Current liabilities, including trade payable, other payables and accrued expenses amounted to HK$1,690,710,000. The Group's current assets were around 1.15 times over its current liabilities (31 December 2018: 1.38 times).

As at 31 December 2018 and 2019, 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$"). During the reporting period, as a result affected by the translation exchange rate from RMB to HongKong Dollar, the change in the data presented in the reports was less than actual change in the business operation.

CAPTIAL STRUCTURE

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

EMPLOYEE INFORMATION

As at 31 December 2019, the Group had 5,145 employees. Total employee remuneration, including directors' remuneration and mandatory provident fund contributions amounted to approximately HK$1,333,575,000.

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 2019, approximate HK$18,998,000 of the Group's bank deposits was pledged (31 December 2018: approximate 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, the Group was fully accelerating upgrade of management software products and cloud services. The Group focuses on the Cloud ERP and aims to help customers build smart enterprises.

During the reporting period, the Group strengthened its high-end advantages and speeded up its cloud transformation development, aggregated our ecological partners through platform products and created a new engine for enterprise digital transformation. In the period, the Group promoted cloud-based and intelligent product development from the underlying architecture level and launched the products such as "Enterprise Digital Capability Platform" Middle-end iGIX, Treasury Management Cloud, HCM. Cloud SE (human resource management cloud) etc. During the reporting period, the Group deepened the large customers management, and signed contracts with the customers such as Dongfang Electric Group, China National Gold Group,Nanshan Group, Guangzhou Water, Weichai, ZTO Express, and Shuanghui Group etc. In 2019, the company was among the SaaS leader camp. Competitiveness of its application software of enterprises level stayed in the forefront of the country. The company was listed by Ministry of Industry and Information Technology as a solution supplier of China Intelligent Manufacture and preferred supplier of China Finance cloud. The Group's brand and market influence was further enhanced.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Cloud Service Business

The Group provides comprehensive cloud services to enterprises in different scales and empowers Inspur partners and enterprises to enhance their core competitiveness in the cloud era. During the reporting period, our revenue from cloud services business recorded a rapid growth, amounted HK$387,910,000, representing 109.6% growth comparatively.

(1) Large enterprises market

During the reporting period, to serve the large enterprise market, the company continued to optimize the large enterprise digital platform GS Cloud. The company increased the product promotion such as financial cloud, human resource cloud, procurement cloud, collaborative cloud, treasury management cloud, travel cloud, tax management cloud, marketing cloud etc. At same time, the company released fist domestic "middle-end" enterprise digital platform- Inspur iGIX, which further speeded up the digital transformation of large enterprises.

During the reporting period, for landing the enterprise Middle-end strategy, based on the cloud orientated and micro-service architecture, through fusion of digital technology of flexible calculation, intelligent IoT, machine learning and cognitive service etc, the company released the first domestic digital middle-end product- iGIX to steady the enterprises' digital, operating and ecological ability. Shown on the market research report of PaaS industry, Inspur was the leader in the field of PaaS market and listed No 1 comprehensive competitiveness.

During the reporting period, the company focused on customers' successful applications and released a HCM Cloud 3.0, which integrated multiple AI technologies and installed human resources sharing framework. The products HCM Cloud meet wide-ranging application needs of group enterprises and speeded up human resource management digital transformation. During the period, the Group signed contracts with China Construction Civil Engineering Corp and Division, Shanghai Construction Corp, Shuanghui Group, Lunan Pharmaceutical Group, Zhujiang Beer etc. According to the research report for HCM software market, Inspur HCM Cloud was listed in Top 2 in China Human resource software SaaS market and ranked No 1 in large-enterprises' market.

During the reporting period, the company and ICBC jointly published product Treasury Management Cloud. Through merging the ICBC's finance service ability and Inspur's enterprises' information service ability, both sides were taking the lead in building one-stop "Treasury + Finance" cloud product to provide professional treasury management and finance service to our large and medium size enterprise clients. During the period, Treasury Management Cloud product had signed contracted with Aluminum Corporation of China, ICBC Leasing, DeRUCCI etc.

During the reporting period, the company's procurement cloud (iGo Cloud) continuously optimized its internal and external services and accelerated the iterative product research and development in order to create first-class domestic e-commerce cooperative eco platform. During the reporting period, the company signed with customers such as Guangdong Road and Bridge Group, Tianjin Food Group, Nanjing Metro, Wuhan Industrial Holding Group, SUNNSY Group etc.

During the reporting period, the company further upgraded the collaborative cloud platform "Cloud +". Focusing on the business operation scenario and work tasks, aiming on agility and collaboration, the "Cloud+" provided more than 20 function and service as timely communication, business directory, task schedule and supervision, mobile approval, cloud disk, etc, and quickly meet the restructured organization needs like control on "site, organization, personnel and process". During the period, "Cloud +" was newly signed with SASAC Tianjin, Baiyun Airport, Guangzhou Water Supply etc.

(2) *Growth enterprise market*

During the reporting period, focusing on the growth enterprise market, the company launched a new generation of open source cloud ERP product PS Cloud V2.5. The product included standard SaaS applications and open source PaaS development platform to help the growth enterprise realise finance and operation process integration and intelligence and speed up the management up towards the cloud. At the same time, the company had signed contracts with partners for fields of sales, delivery, consulting, micro-services etc. The company newly signed with the industry head enterprises such as China Tobacco Yunnan Industrial, HFY-group, Overland, Macrolink Group, Aladdin Group, Degao Floor and etc.. This product was awarded Excellent solution for industrial internet APP by the Ministry of Industry and Information Technology and also got honor like high SaaS client satisfaction brand etc.

In the March of 2020, for the human resource management market of growth enterprise, the company delivered a new human resource SaaS product-HCM Cloud SE. This product, with the character of professional, serviceable and supportive, provides the series of functions such as attendance and payroll integration, no-contact recruitment, no-contact training etc to help the growth enterprise get rapid development.

(3) *Small and Micro Enterprise Market*

During the reporting period, in the small and micro enterprise market, the company released the professional version and store version of Inspur Yiyun, which input more value-added tools such as online taxation risk assessment, bank auto-reconciliation etc, and cooperated with a number of banks to provide intelligent one-stop invoice-financial-taxation cloud solutions to small and micro enterprises. During the reporting period, Inspur Yiyun got honors like "2019 SME Financial SaaS Cloud Service Trustworthy Product", "2019 SME preferred cloud service brand" and many other awards.

2. Management Software Business

During the reporting period, industries and customers covered by 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) and also technology advantage in block chain, AI and etc to continuously help our large enterprise group customers innovate in digital transformation and management. The revenue of management software reached HK$1,969,121,000, with 2.4% growth year-on-year basis.

The Group adhered to the domestic shared service hotspots, released an integrated open platform, built financial middle-end, enhanced the ability to integrate financial sharing with heterogeneous 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. Help the group enterprise customers strengthen the management and control of subordinate operating units in a vertical directions, realize the integration of financial business horizontally, and provide strong technical support for effective supervision and decision-making.

During the reporting period, the company continued to enrich totality intelligent manufacturing solution and launch the BoostGo industry intelligent platform, of which function covered industry data collection, time series data storage and analysis, 3D machine simulation etc. Through collection of edge data and analysis, it realises management's vertical integration between MES manufacturing execution system and ERP plan, and therefore provide the manufacturing industry a totality intelligent solution. During the reporting period, the Group was selected as an intelligent manufacturing system solution supplier, and signed contract with manufacturing group clients like Nanshan Group, CRHIC, Wuhan Industry Holding, Chongqing Jianshe Industry Group etc.

During the reporting period, the company released the enterprise intelligent open innovation platform EA Enterprise Brain 3.0, which integrates IT technologies such as artificial intelligence and big data, and automatically start business processes based on rules-driven ERP systems to help enterprises achieve automation and intelligent upgrade. Customers such as Guangdong Water, Lianyungang Urban Construction Holding, Tianjin Food, Zhengtong Coal Mine, Xishan Coal and Power, Sunshine Insurance etc, had 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.

During the reporting period, the company deepened in R&D of blockchain technology, integrated with the ERP practice and enriched more blockchain technology scene application in order to serve more customers in different fields and further upgrade ERP technology and ability. At present, the company's blockchain application includes: blockchain +financial payment, blockchain +e-procurement, blockchain +inside trading, blockchain + e-invoice etc. Relying on the experienced scene application ability, powerful eco cooperative ability, strong totality service ability, next step, more blockchain technology will be used in our product R&D to empower the enterprise.

During the reporting period, Inspur Tianyuan Communication grasped the opportunities of 5G development and telecom operators upgrading their supporting system. The company developed and published total new cloud wise series products: iOSS. iOSS realised automatic, intelligent and agile support to network operation and maintenance and end-to-end operations, It strongly supported the development of operators' 5G and cloud-network integration. The company successfully executed the benchmark projects in Beijing Mobile and Shangdong Unicom. The company explored business to new industries like State Grid and China Railway through core products applied by new operators like China Mobile Zhixing and China Mobile network. The company provides the customers intelligent operation supporting products and service to assist industry operator digital transformation.

3. Internet of Things Solution Business

During the reporting period, Our Group's IoT business mainly was covering the Grain and Telecom industry and realized revenue of HK$540,663,000, representing 61.3% growth comparatively.

For the grain and agriculture industry, through integration of Zhengzhou Hualiang Technology, the Group provides smart grain and reverses solutions to grain and reserve authorities at all levels and grain-related enterprises of large, medium, small and micro-scale. During the reporting period, we launched all series of "Smart Grain" projects. In the period, through supporting national inventory of policy-related grain quality and quantity and signing contracts with SINOCHEM,COFCO and CNCRC, the company consolidated its highs in the grain industry highs. At same time, the company explored to the provincial grain and reserve markets and signed contracted with four provinces like Gansu, Ningxia, etc.

During the reporting period, the telecom industry grasps the 5G era digital transformation and IoT development opportunities. The intelligent industry IoT middle-end platform, based on the IOE brain, realized the technology leap from single point of intelligence to multi-body intelligence, and closely linked across with different industries such as energy, transportation, forestry, wisdom city etc. Since breaking through brain-like cognitive abilities like multidimensional perception, global insight, real-time decision, continuous evolution etc, it generates series of industry solutions such as wisdom energy, wisdom transportation, and wisdom forestry etc. Based on the above, the company will keep on exploring in IOE market, through grasping the urgent demands of telecom operators in government administration and enterprises business development, combining its digital advantages with network of operators, jointly building an ecosystem with industry partners, and taking its advantage in the field of cloud computing, big data and AI etc

BUSINESS PLAN

In 2020, the company will invest more in R&D of cloud ERP, speed up business transformation up to Cloud, and further upgrade its proportion of cloud business. Based on its business strategy of deepening the operation of large customers and consolidating high-end advantages, the company s will continue upgrading and optimize its software products and cloud service, strengthen "Platform + Ecology" partner operation idea, cooperate with joint partners to assist enterprises to operate on the cloud platform, and create a new engine for enterprise digital transformation. In the future, relying on the parent company Inspur Group under its full coverage of IaaS-Paas-SaaS and the influence of Inspur brand, the company will continuously create new technologies, new applications, new models, and assist 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 SENIOR MANAGEMENT PROFILE

DIRECTORS

Mr. Wang Xingshan, aged 55, 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 51, is the chief executive officer ("CEO"), has over 26 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 58, 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 42, 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 61, 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.

Ms. Zhang Ruijun, aged 58, 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 58, is currently a professor and a PhD supervisor 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* (信息工程中心) 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 44, 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 49, 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 41, 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.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2019.

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 2019 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 Director

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. Wang Xingshan, Mr. Jin Xiaozhou, Joe, and Mr. Ding Xiangqian shall be retired by rotation and be eligible for re-election.

III. Board Meeting/General Meeting

For the year ended 31 December 2019, the Company convened four Board meetings and two General Meeting. The following table shows the details of Directors' attendance:

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

CORPORATE GOVERNANCE REPORT

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 2019, 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 2018 annual report and the 2019 interim report, considering and approving the Company's acquisition, 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 2019:

Directors	Corporate Governance, regulatory development other relevant topics	Monthly report
Mr. Wang Xingshan	✓	✓
Mr. Lee Eric Kong	✓	✓
Mr. Jin Xiaozhou,Joe	✓	✓
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 2019, 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;

CORPORATE GOVERNANCE REPORT

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 2019, the Audit Committee held two meetings, at which the Audit Committee:

(1) reviewed the Company's annual financial report and internal control report for the year 2018, and submitted them to the Board for approval;

(2) reviewed the Company's interim financial report of 2019, and submitted it to the Board for approval;

Details of attendance at the Audit Committee meetings during year 2019 are set out below:

Audit Committee Members	Attendance/ number of Meetings
Mr. Wong Lit Chor, Alexis (Chairman)	2/2
Ms. Zhang Ruijun	2/2
Mr. Ding Xiangqian	2/2

Remuneration Committee

As at 31 December 2019, 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 2019, the Remuneration Committee did not hold any meeting.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Board has established a Nomination Committee. As at 31 December 2019, 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 2019 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 2019.

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.

CORPORATE GOVERNANCE REPORT

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 2019.

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	3,191

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 2019 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 continuously engaged an external consultant to assist in optimizing the established effective risk management system 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.

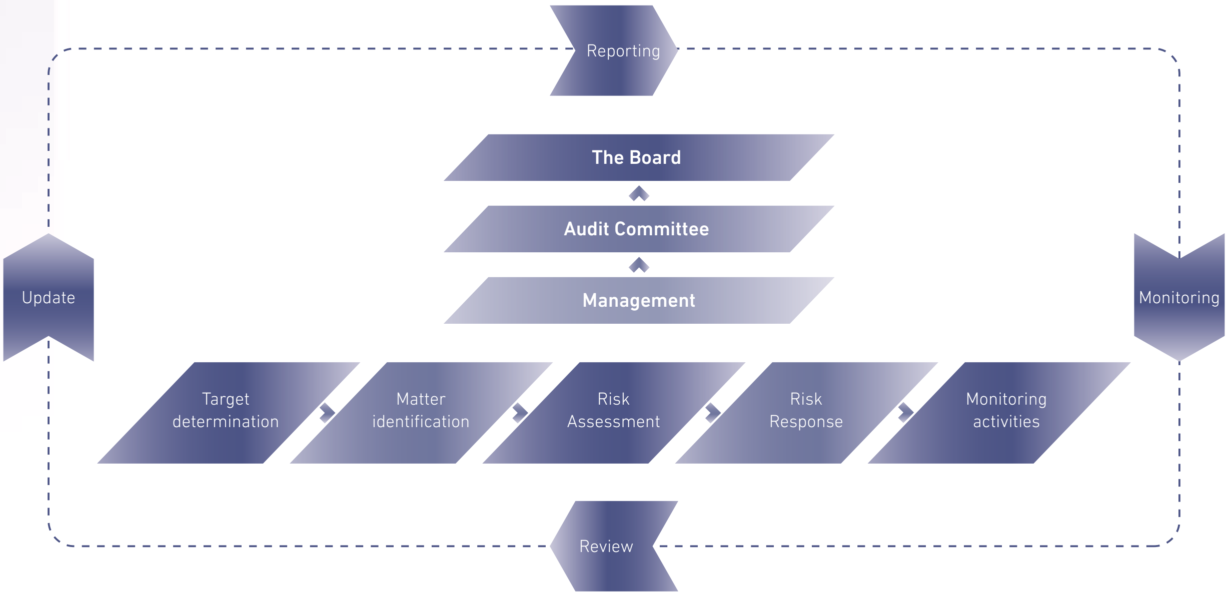
Key policies and procedures of the Company include whistleblowing policy, policies of inside information handling, connected transactions and various operational policies and procedures which provide day to day operational guidelines for requirements under the corporate governance framework.

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. It also integrated the top-down and bottom-up approach in risk identification and assessment process, in order to provide a comprehensive view from both management and operation level. 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.

CORPORATE GOVERNANCE REPORT

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 Company has evaluated and reviewed the risks of environmental, social and corporate governance and its monitoring system in accordance with the requirements of Appendix 27 of the Listing Rules. The identified risk events are analyzed and consolidated by the engaged risk consultant for identifying key risks to the Company. The identified key risks, risk momentum 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 28 to 31 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.

CORPORATE GOVERNANCE REPORT

Significant Risks and Risk Momentum of the Company

During the year, the Company has identified and assessed different risk events and evaluate 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 Group's major business operations are in Mainland China and the political environment is relatively stable. Although the recent novel infectious disease and trade war between US have brought some negative pressure on the economy, it also opened up more business opportunity for expansion of cloud service during epidemic. Therefore, the risk level broadly remains the same
Employee	Employees are valuable assets of the Company. Failure to retain key employees due to health and safety issues or offering not competitive remuneration package, will affect the quality of the 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 — Regularly check the health and safety environment in workplace — 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	↑ Under the outbreak of novel infectious disease, the risks related to staff health and safety increases

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 inappropriately handling 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 level in this area remains unchanged
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 suppliers and consultants	Low to Medium	←→ No significant change in this area, the risk remains unchanged
Laws and Regulations	Unable to meet local legal and regulatory requirements for operating business overseas or non-compliance of the newly implemented laws and regulations may result in reputational damage and company financial loss	— 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	↑ With the expansion of oversea business operations, the risks related to meeting the requirements of laws and regulations is slightly increasing

CORPORATE GOVERNANCE REPORT

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 momentum maintains unchanged
Operation and Management	Inadequate control measures in daily operation, such as infringement of our intellectual properties, credit risks, 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 — Established control mechanism for key processes — Develop approval procedures, including approval on credit application — 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	←→ There is no significant change in the business model. The risk momentum remains unchanged
Natural disaster	Severe disasters, such as fire, flood, outbreak of infectious diseases, 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 the outbreak of novel infectious disease, the risk level of natural disaster increased

Risk category	Significant risks	Significant control measures and risk countermeasures	Risk level	Risk Momentum[1]
Media and reputation	Inappropriate handling on 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 remains stable
Energy and environment	Failure in controlling pollution (such as noises, waste gases and electronic waste) from projects of the Company in an effective manner may have negative effect on the environment. Procurement costs increase due to climate/policy change.	— Strictly control pollutants arising from business operation — Promptly handle the complaint — Closely monitor and promptly responses to the change of government policy	Low	←→ Due to the industrial nature, the risk stays stable

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

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2019.

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 2019, the five largest customers accounted for approximately 13.78% of the Group's total turnover. The five largest suppliers accounted for approximately 6.75% of the Group's total purchase amounts. In addition, the largest customer accounted for approximately 3.64% of the Group's total turnover while the largest supplier accounted for approximately 2.80% 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 2.60% and 2.80% respectively of the total sales and total purchases of the Group for the year ended 31 December 2019.

SHARE CAPITAL

Details of movements during the year of the Company's share capital are set out in note 32 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated Income Statement on page 48.

FINAL DIVIDENDS

The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2019.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, 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 41 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 43 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 15 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Particulars of the Group's related party transactions are set out in note 42 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 Framework 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.

   On 23 August 2019, the Company and Inspur Group entered into the Supplemental Agreement, The maximum annual caps under Supply Transactions will not exceed RMB76,400,000 and RMB 84,000,000 for each of the financial year ended 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, 23 August 2019 announcement.

   The aggregate transactions under Supply Transactions for the year ended 31 December 2019 amounted to approximately RMB 66,499,000 (approximately HK$75,414,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2019 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 favorable 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.

On 5 November 2019, the Company and Inspur Group entered into the second Supplemental Agreement, The maximum annual caps of the value of transactions under Selling Agency Transactions will not exceed RMB 1,080,000,000, RMB 1,180,000,000 and RMB 1,306,800,000 for each of the financial year ended 31 December 2019, 2020 and 2021 respectively. The expected maximum amounts of commissions to be paid by the Group to the Inspur Group will not exceed RMB 10,800,000, RMB 11,800,000 and RMB 13,068,000 for each of the financial year ended 31 December 2019, 2020 and 2021 respectively.

Further details of such continuing connected transaction were disclosed in the Company's circular dated 28 November 2019 (the "Circular") and 5 November 2019 announcement.

The aggregate transactions under Selling Agency Transactions for the year ended 31 December 2019 amounted to RMB 991,115,000 (equivalent to approximately HK$1,123,981,000) and the related commission amounted to RMB 9,908,000 (equivalent to approximately HK$11,237,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2019 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 2019 amounted to RMB45,972,000 (equivalent to approximately HK$52,135,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2019 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 favorable 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 favorable 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 2019 amounted to approximately RMB$7,781,000 (equivalent to approximately HK$8,825,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2019 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 favorable 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 favorable 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 and 2020 are RMB 13,960,000, RMB 16,700,000 and RMB 17,540,000 respectively.

On 23 August 2019, the Company and Inspur Group entered into the Supplemental Agreement, The maximum annual caps under Lease Transactions will not exceed RMB22,000,000 and RMB 26,400,000 for each of the financial year ended 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, 23 August 2019 Announcement.

During the year ended 31 December 2019, the rental Income from Inspur Group under Leasing amounted to approximately RMB 20,621,000 (equivalent to approximately HK$23,386,000).

The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2019 and confirmed that the Leasing were (i) in the ordinary course and usual course of the Group's business; (ii) on terms no less favorable 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 favorable 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 2019, the rental Income from Inspur Group under Leasing Services amounted to approximately RMB37,040,000 (equivalent to approximately HK$42,005,000).

   The independent non-executive directors have reviewed the above connected transactions for the year ended 31 December 2019 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 2019, 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 RMB86,400,000 for the OpCo Group for the year ended 2019. For the year ended 31 December 2019, 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 2019, the Company's reserves available for distribution are set out as below:

	2019 HK$'000
Reserves	2,014,531

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' REPORT

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

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 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 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 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 31 December 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 31 December 2019, no persons have any other relevant interests or short positions in shares or underlying shares of equity derivatives of the Company.

DIRECTORS' REPORT

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 33 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 2019, 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 two 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 2019 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 2019, 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 2019.

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 33 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

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 2 June 2020 to 5 June 2020 (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 1 June 2020.

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

30th March 2020

INDEPENDENT AUDITOR'S REPORT

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 143, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. The progress towards complete satisfaction requires management to make significant estimates of the expected costs to complete the relevant performance obligations based on the budgets prepared for the contract. Details relating to the Group's revenue arising from software development contracts and corresponding key estimation uncertainty on recognition are set out in Notes 5 and 4 to the consolidated financial statements respectively.	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 the progress towards complete satisfaction 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 2019, the Group's investment properties which comprised the office premises located in Jinan, Beijing, Changsha and Hong Kong were stated at fair value of HK$961.0 million. The Group's investment properties located in Jinan and part of the investment properties located in Beijing, accounting for approximately 96.1% 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 16 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 • 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.

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

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.

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.

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)

- 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.

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
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	5	2,897,694	2,442,616
Cost of sales		(1,863,138)	(1,503,852)
Gross profit		1,034,556	938,764
Other income	7	169,035	190,493
Other gains and losses	7	(3,738)	5,964
Impairment losses, net of reversal	8	(43,265)	(7,235)
Administrative expenses		(303,699)	(378,036)
Research and development expenses		(242,946)	(152,304)
Selling and distribution expenses		(469,504)	(381,565)
Financial costs		(1,563)	(13,743)
Change in fair value of investment properties	16	8,586	12,336
Share of profit of associates		42,092	191,287
Share of profit (loss) of a joint venture		3,280	(42,842)
Profit before tax		192,834	363,119
Income tax expenses	9	(1,933)	(18,672)
Profit for the year	10	190,901	344,447
Profit for the year attributable to owners of the Company		203,059	324,030
(Loss) profit for the year attributable to non-controlling interests		(12,158)	20,417
Earnings per share	14		
– Basic (HK cents)		17.83	29.09
– Diluted (HK cents)		17.59	29.01

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	190,901	344,447
Other comprehensive (expense) income:		
Items that will not be reclassified to profit or loss:		
Fair value (loss) gain on investment in an equity instrument at fair value through other comprehensive income ("FVTOCI")	(4,548)	6,885
Deferred tax on revaluation upon equity instrument at FVTOCI	1,136	(1,721)
Gain on revaluation upon transfer from property, plant and equipment to investment properties	30,681	55,272
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	(1,986)	(32,647)
Share of other comprehensive income (expense) of associates and a joint venture	6,814	(20,035)
Exchange differences arising on translation to presentation currency	(39,592)	(35,914)
	(7,495)	(28,160)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(2,992)	(45,578)
	(2,992)	(45,578)
Other comprehensive expense for the year, net of income tax	(10,487)	(73,738)
Total comprehensive income for the year	180,414	270,709
Total comprehensive income (expense) for the year attributable to:		
– Owners of the Company	189,833	242,429
– Non-controlling interests	(9,419)	28,280
	180,414	270,709

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	31 December 2019 HK$'000	31 December 2018 HK$'000
Non-current assets			
Property, plant and equipment	15	402,130	505,430
Investment properties	16	961,010	826,697
Goodwill		8,455	—
Right-of-use assets	17	58,755	—
Prepaid lease payments	18	—	56,773
Other intangible assets	19	68,578	19,986
Equity instrument at FVTOCI	20	35,609	40,849
Interest in associates	21	473,908	299,715
Interest in a joint venture	22	98,234	96,796
Advance payment for interest in a subsidiary		—	19,358
		2,106,679	1,865,604
Current assets			
Inventories	23	873	16,194
Trade and bills receivables	24	353,148	281,149
Debt instruments at FVTOCI		11,503	32,129
Prepaid lease payments	18	—	1,445
Prepayments, deposits and other receivables		96,599	76,556
Contract assets	25	383,875	191,885
Financial assets at fair value through profit or loss ("FVTPL")		33	34
Amount due from ultimate holding company	26	4,078	5,368
Amounts due from fellow subsidiaries	26	274,937	323,562
Pledged bank deposits	27	18,998	22,589
Bank balances and cash	27	807,125	865,181
		1,951,169	1,816,092
Current liabilities			
Trade payables	28	334,951	180,653
Other payables, deposits received and accrued expenses	29	508,084	482,274
Lease liabilities	30	6,563	—
Contract liabilities	25	672,868	511,281
Amount due to ultimate holding company	31	1,153	1,079
Amounts due to fellow subsidiaries	31	48,629	76,132
Deferred income - government grants	34	103,315	45,317
Tax liabilities		15,147	20,986
		1,690,710	1,317,722
Net current assets		260,459	498,370
Total assets less current liabilities		2,367,138	2,363,974

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	31 December 2019 HK$'000	31 December 2018 HK$'000
Non-current liabilities			
Lease liabilities	30	4,633	—
Deferred income - government grants	34	53,371	79,307
Deferred tax liabilities	35	230,989	231,570
		288,993	310,877
		2,078,145	2,053,097
Capital and reserves			
Share capital	32	11,389	11,389
Reserves		2,014,531	2,042,552
Equity attributable to owners of the Company		2,025,920	2,053,941
Non-controlling interests		52,225	(844)
Total equity		2,078,145	2,053,097

The consolidated financial statements on pages 48 to 143 were approved and authorised for issue by the Board of Directors on 30 March 2020 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 2019

	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-based payments reserve HK$'000	Translation reserve HK$'000	Revaluation reserve HK$'000	Merge reserve HK$'000 (note c)	Retained profits HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'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	–	–	–	–	–	–	–	–	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 13)	–	–	–	–	–	–	–	–	(28,582)	(28,582)	–	(28,582)
Recognition of equity-settled share-based payments (Note 33)	–	–	–	–	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
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	–	–	–	–	–	–	–	–	203,059	203,059	(12,158)	190,901
Other comprehensive (expense) income	–	–	–	–	–	(34,188)	20,962	–	–	(13,226)	2,739	(10,487)
Total comprehensive (expense) income for the year	–	–	–	–	–	(34,188)	20,962	–	203,059	189,833	(9,419)	180,414
Contribution by non-controlling interest	–	–	10,089	–	–	–	–	–	–	10,089	16,279	26,368
Acquisition of additional interests in a subsidiary	–	–	(192,701)	–	–	–	–	–	–	(192,701)	5,681	(187,020)
Acquisition of a subsidiary (Note 36)	–	–	–	–	–	–	–	–	–	–	40,528	40,528
Dividend paid (Note 13)	–	–	–	–	–	–	–	–	(45,557)	(45,557)	–	(45,557)
Recognition of equity-settled share-based payments (Note 33)	–	–	–	–	10,315	–	–	–	–	10,315	–	10,315
	–	–	(182,612)	–	10,315	–	–	–	(45,557)	(217,854)	62,488	(155,366)
At 31 December 2019	11,389	1,561,333	(575,158)	92	66,659	(13,129)	127,789	(380,797)	1,227,742	2,025,920	52,225	2,078,145

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.

(c) The merge reserve arose from the acquisition of subsidiaries under common control and the 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").

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit for the year	190,901	344,447
Adjustments for:		
Income tax	1,933	18,672
Share of profit of associates	(42,092)	(191,287)
Share of profit (loss) of a joint venture	(3,280)	42,842
Interest income on bank deposits	(4,050)	(2,152)
Interest income on financial assets at FVTPL	(11,567)	(22,615)
Financial costs	591	13,743
Change in fair value of investment properties	(8,586)	(12,336)
Loss on disposal of other intangible asset	1,708	—
Depreciation of property, plant and equipment	37,366	55,972
Depreciation of right-of-use assets	7,944	—
Amortisation of prepaid lease payments	—	2,297
Amortisation of other intangible assets	1,455	668
Net gain on disposal and written off of property, plant and equipment	(1,085)	(131)
Impairment loss, net of reversal - financial assets	21,525	(766)
Write-down of inventories	18,074	—
Government subsidies and grants	(14,717)	(26,972)
Recognition of equity-settled share-based payments	10,315	46,917
Impairment loss on contract assets	21,740	8,001
Operating cash flows before movements in working capital	228,175	277,300
Decrease (increase) in inventories	11,609	(4,432)
(Increase) decrease in trade and bills receivables	(86,409)	15,755
Decrease (increase) in debt instruments at FVTOCI	20,325	(24,675)
(Increase) decrease in prepayments, deposits and other receivables	(5,010)	20,396
Increase in contract assets	(220,159)	(104,271)
Decrease (increase) in amounts due from fellow subsidiaries	39,042	(140,664)
Increase (decrease) in amount due from ultimate holding company	(1,768)	3,304
Increase in trade and bills payables	136,015	7,937
(Decrease) increase in other payables, deposits received and accrued expenses	(43,842)	108,846
Increase in contract liabilities	148,314	15,760
(Decrease) increase in amounts due to fellow subsidiaries	(19,478)	56,966
Decrease in amount due to ultimate holding company	(4)	(237)
Increase in deferred income	54,622	42,998
Cash generated from operations	261,432	274,983
Income taxes paid	(5,824)	(15,121)
NET CASH FROM OPERATING ACTIVITIES	255,608	259,862

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(18,333)**	(54,432)
Proceeds from disposal of property, plant and equipment		**7,093**	1,242
Interest received		**4,050**	2,152
Interest income on financial assets at FVTPL		**11,567**	22,615
Withdrawal of pledged bank deposits		**16,411**	4,250
Placement of pledged bank deposits		**(13,130)**	(13,148)
Dividend received from an associate		**86,513**	27,574
Advance to fellow subsidiaries		**(45,265)**	(51,591)
Repayment from fellow subsidiaries		**44,204**	53,223
Advance to ultimate holding company		**(28)**	(801)
Investment in an associate		**(223,587)**	—
Advance payment for interest in a subsidiary		**—**	(20,137)
Net cash from acquisition of a subsidiary	36	**40,088**	—
Development expenditures	19	**(42,574)**	(18,090)
NET CASH USED IN INVESTING ACTIVITIES		**(132,991)**	(47,143)
FINANCING ACTIVITIES			
Dividend paid to ordinary shareholders		**(45,557)**	(28,582)
Capital injection from other investors of a subsidiary		**26,368**	26,722
Acquisition of partial interest in a subsidiary		**(132,754)**	(84,873)
Net cash outflow on merger of subsidiaries		**—**	(548,407)
Repayment to ultimate holding company		**—**	(1,551)
Repayment to fellow subsidiaries		**(6,998)**	(1,976)
Repayment to bank loan		**—**	(23,691)
Received from ultimate holding company		**99**	—
Financial costs		**—**	(13,743)
Repayments of lease liabilities		**(7,652)**	—
Interest paid on lease liabilities		**(591)**	—
NET CASH USED IN FINANCING ACTIVITIES		**(167,085)**	(676,101)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(44,468)**	(463,382)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**865,181**	1,391,022
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(13,588)**	(62,459)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash		**807,125**	865,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, software development and other software services.

2. 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 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 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.

2. 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)

2.1 HKFRS 16 *Leases*

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

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 standard 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.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. 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. 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;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

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.

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 incremental borrowing rate applied is 4.75%.

2. 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)

2.1 HKFRS 16 *Leases* (continued)

As a lessee (continued)

	At 1 January 2019 HK$'000
Operating lease commitments disclosed 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 at 1 January 2019	8,291
Analysed as	
Current	4,075
Non-current	4,216
	8,291

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

	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 (*)	58,218
	66,509
By class:	
Leasehold lands	58,218
Leased properties	8,291
	66,509

* Upfront payments for leasehold lands in the Mainland China 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. 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)

2.1 HKFRS 16 *Leases* (continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for subleases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. At the date of initial application, leased properties under subleases were assessed and classified as an operating lease or a finance lease individually based on the remaining contractual terms and conditions of the head lease and the sublease at that date. The classification of the subleases of the Group has not been changed based on the assessment required.

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.

		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	(*)	56,773	(56,773)	**—**
Right-of-use assets		—	66,509	**66,509**
Current Assets				
Prepaid lease payments	(*)	1,445	(1,445)	**—**
Current Liabilities				
Lease liabilities		—	(4,075)	**(4,075)**
Non-current Liabilities				
Lease liabilities		—	(4,216)	**(4,216)**

2. 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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 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.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be 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.

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 judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. 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)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. 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 certain financial instruments, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

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 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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*;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);
- 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.
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. 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 beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit (or group of cash-generating units) may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates 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. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 (including goodwill) 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 is not allocated to any asset, including goodwill, that 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and a joint venture (continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in OCI in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in OCI relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

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 or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 2)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of offices 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 straight-line basis or another systematic basis over the lease term.

Right-of-use assets

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.

Except for those that are classified as investment properties, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Group recognises 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2) (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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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 or 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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessee (prior to 1 January 2019)

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.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

Interest and rental income which are derived from the Group's ordinary course of business are presented as other income.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in Note 2)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

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.

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 operations 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences relating to the retranslation of the Group's net assets in RMB to the Group's presentation currency (i.e. HK$) are recognised directly in OCI and accumulated in translation reserve. Such exchange differences accumulated in the translation reserve are not reclassified to profit or loss subsequently.

Borrowing costs

All 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. 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-based payments reserve). At the end of the reporting period, the Group revises its estimates of the number of equity instruments 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-based payments reserve.

When the share options are exercised, the amount previously recognised in share-based payments 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-based payments reserve will be transferred to retained profits.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and 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 purpose 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.

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 on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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 to the same taxable entity by the same taxation authority.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. 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 a property 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 (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognised in OCI and accumulated in revaluation reserve. On the subsequent sale or retirement of the property, 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 for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income. 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.

3. 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on property, plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets 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. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets 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.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and bills receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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 selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application HKFRS 9/ 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.

A financial asset is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(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 be transferred to retained profits.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and bills 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 which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. 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 and bills receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for those with credit impaired and collectively using a provision matrix with appropriate groupings with shared credit characteristics for the others.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items (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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items (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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items (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.

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 are each assessed as a separate group);
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. 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.

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 investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 progress towards complete satisfaction of the performance obligation 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. Management estimates the expected total contract costs to complete the relevant performance obligations based on the budgets prepared for the contracts. Because of the nature of the activities, management reviews and revises the estimates of such expected contract costs in the budget prepared for each contract as the contract progresses. Any revisions to estimates of the expected contract costs would affect contract revenue recognition.

4. 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$933,110,000 (2018: HK$797,797,000) 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$35,609,000 (Note 20) as at 31 December 2019 (HK$40,849,000 as at 31 December 2018) are measured at fair values. The fair values of these instruments 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 and bills receivables and contract assets

The Group uses provision matrix to calculate ECL for the trade and bills receivables and contract assets except that trade and bills 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 2019, the gross carrying amount of trade and bills receivables and contract assets were HK$399,051,000 and HK$444,624,000, respectively and the balances of allowance for credit losses were HK$45,903,000 and HK$60,749,000, respectively.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bills receivables and contract assets are disclosed in Note 38.

5. REVENUE

A. Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2019			
Segments	Cloud services HK$'000	Management software HK$'000	Internet of things (IoT) solution HK$'000	Consolidated HK$'000
Types of goods or services				
Sales of IT peripherals and software	—	—	540,663	540,663
Software development	387,910	1,619,050	—	2,006,960
Other software services	—	350,071	—	350,071
	387,910	1,969,121	540,663	2,897,694
Geographical markets				
Mainland China	387,910	1,849,267	538,892	2,776,069
United States	—	114,419	1,771	116,190
Others	—	5,435	—	5,435
	387,910	1,969,121	540,663	2,897,694
Timing of revenue recognition				
A point in time	—	—	540,663	540,663
Over time	387,910	1,969,121	—	2,357,031
	387,910	1,969,121	540,663	2,897,694

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE (continued)

A. Disaggregation of revenue from contracts with customers (continued)

	For the year ended 31 December 2018			
Segments	Cloud services HK$'000	Management software HK$'000	Internet of things (IoT) solution HK$'000	Consolidated HK$'000
Types of goods or services				
Sales of IT peripherals and software	—	—	335,094	335,094
Software development	185,050	1,601,716	—	1,786,766
Other software services	—	320,756	—	320,756
	185,050	1,922,472	335,094	2,442,616
Geographical markets				
Mainland China	104,463	1,726,792	335,094	2,166,349
United States	—	155,839	—	155,839
Others	80,587	39,841	—	120,428
	185,050	1,922,472	335,094	2,442,616
Timing of revenue recognition				
A point in time	—	—	335,094	335,094
Over time	185,050	1,922,472	—	2,107,522
	185,050	1,922,472	335,094	2,442,616

B. 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.

Revenue in connection with software development contracts are recognised by reference to the progress towards complete satisfaction of the performance obligation 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.

5. REVENUE (continued)

B. Performance obligations for contracts with customers (continued)

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.

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.

6. 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 the year 2018, specifically, the Group's reportable and operating segments were as follows:

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.

During the year, CODM's business focus has shifted to cloud services with a rapid growth of cloud services revenue. As a result, the Group is now organised into the following operating and reportable segments:

1. Cloud services - Provision of cloud services;

2. Management software - Provision of software development and other software services;

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

Accordingly, the segment information reported for the prior year has been restated to conform with the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION (continued)

Segment revenue and results

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

For the year ended 31 December 2019

Segments	Cloud services HK$'000	Management software HK$'000	Internet of things (IoT) solution HK$'000	Consolidated HK$'000
	For the year ended 31 December 2019			
Segment revenue	387,910	1,969,121	540,663	2,897,694
Segment (loss) profit	(130,172)	262,314	1,681	133,823
Unallocated other income, gains and losses, net				99,220
Change in fair value of investment properties				8,586
Share of profit of an associate				42,092
Share of profit of a joint venture				3,280
Share-based payments				(10,315)
Unallocated administrative costs				(56,128)
Unallocated selling and distribution expenses				17,104
Impairment losses, net of reversal				(43,265)
Financial costs				(1,563)
Profit before tax				192,834

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2018

	For the year ended 31 December 2018			
Segments	Cloud services HK$'000	Management software HK$'000	Internet of things (IoT) solution HK$'000	Consolidated HK$'000
Segment revenue	185,050	1,922,472	335,094	2,442,616
Segment profit	(46,706)	254,350	12,567	220,211
Unallocated other income, gains and losses, net				116,648
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

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 segment 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 presented by geographic location of assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION (continued)

Geographical information (continued)

	Revenue from external customers		Non-current assets*	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Country of domicile				
- Mainland China	2,776,069	2,166,349	2,029,827	1,788,316
- Hong Kong	—	—	35,527	35,419
	2,776,069	2,166,349	2,065,354	1,823,735
Others	121,625	276,267	5,716	1,020
	2,897,694	2,442,616	2,071,070	1,824,755

* Non-current assets excluded those relating to equity instrument at FVTOCI.

Information about major customers

The group has no customers whose revenue amount is more than 10% of the Group's revenue in 2019 and 2018.

7. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	2019 HK$'000	2018 HK$'000
Other income:		
Interest income on bank deposits	4,050	2,152
Interest income on financial assets at FVTPL	11,567	22,615
VAT refund (note a)	66,077	79,810
Government subsidies and grants (note b)	16,249	26,972
Rental income	66,848	58,675
Others	4,244	269
	169,035	190,493
Other gains and losses, net:		
Net foreign exchange (loss) gain	(2,985)	5,833
Net (loss) gain on disposal and written off of property, plant and equipment and other intangible assets	(623)	131
Others	(130)	—
	(3,738)	5,964

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

Notes:

a. Inspur Generally Software Co., Ltd. ("Inspur Genersoft") and Tianyuan Communications System Co., Ltd. ("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 2019, income of approximately HK$8,663,000 (2018: HK$7,411,000) 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 2019, income of approximately HK$7,586,000 (2018: HK$19,561,000) 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.

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	2019 HK$'000	2018 HK$'000
Impairment losses recognised (reversed) on:		
- Trade and bills receivables	9,667	(3,232)
- Other receivables	2,605	2,466
- Contract assets	21,740	8,001
- Amounts due from related parties	9,253	—
	43,265	7,235

9. INCOME TAX EXPENSES

	2019 HK$'000	2018 HK$'000
Current tax:		
PRC EIT	5,857	13,380
(Over) under provision in prior years		
PRC EIT	(5,564)	2,507
Deferred taxation (Note 35)	1,640	2,785
	1,933	18,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX EXPENSES (continued)

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 profits for both years.

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, Beijing Tianyuan Network Co., Ltd. ("Tianyuan Network"), Zhengzhou Hualiang Technology Co., Ltd. ("Zhengzhou Hualiang") and Beijing Genersoft Technology Co., Ltd. ("Beijing Genersoft").

Tianyuan Communications, Tianyuan Network, Zhengzhou Hualiang and Beijing Genersoft are recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15% for the years ended 31 December 2019 and 2018.

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% (2018:10%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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:

	2019 HK$'000	2018 HK$'000
Profit before tax	192,834	363,119
Tax at PRC EIT rate of 25% (2018: 25%) (note)	48,209	90,780
Tax effect of share of profit of an associate	(10,524)	(47,822)
Tax effect of share of (profit) loss of a joint venture	(820)	10,710
Tax effect of expenses not deductible for tax purpose	12,563	13,901
Tax effect of tax losses and deductible temporary differences not recognised	44,152	40,827
Utilisation of tax losses and deductible temporary differences previously not recognised	(28,181)	(9,269)
(Over) under provision in respect of previous years	(5,564)	2,507
EIT tax benefits	(62,160)	(81,968)
Deferred tax on withholding tax arising from PRC subsidiaries	1,418	(8,932)
Deferred tax on change in fair value of investment properties in PRC	2,840	2,345
Deferred tax on government grant previously not taxable	—	5,593
Income tax expenses for the year	1,933	18,672

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.

9. INCOME TAX EXPENSES (continued)

At the end of the reporting period, the Group had unused tax losses of HK$157,446,000 (2018: HK$131,758,000), 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$124,517,000 (2018: HK$86,797,000) will expire in various years before 2029 (2018: 2028). Other tax losses may be carried forward indefinitely.

10. PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	37,366	55,972
Depreciation for right-of-use assets	7,944	—
Amortisation for other intangible assets	1,455	668
Release of prepaid lease payments	—	2,297
Total depreciation and amortisation	46,765	58,937
Auditor's remuneration	3,779	4,936
Operating lease rentals in respect of office premises and staff quarters	—	59,950
Expense relating to short-term leases	50,678	—
Gross rental income from investment properties	(77,883)	(66,475)
Less:		
direct operating expenses incurred for investment properties that generated rental income during the year	10,296	7,688
direct operating expenses incurred for investment properties that did not generate rental income during the year	739	112
	(66,848)	(58,675)
Directors' remuneration (Note 11)	8,283	15,807
Other staff costs		
Salaries and other benefits	1,159,469	998,505
Share-based payments	8,023	35,958
Retirement benefits schemes contributions	157,800	144,156
	1,325,292	1,178,619
Cost of inventories recognised as expense in cost of sales	502,618	317,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. 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 2019					
Executive Directors (note i)					
Wang Xingshan (note ii)	300	1,663	65	494	2,522
Lee Eric Kong (note iii)	—	2,549	18	1,016	3,583
Jin Xiaozhou, Joe	—	1,062	94	407	1,563
Non-Executive Director (note iv)					
Dong Hailong	—	—	—	—	—
Independent Non-Executive Directors (note v)					
Wong Lit Chor, Alexis	120	—	—	125	245
Zhang Ruijun	60	—	—	125	185
Ding Xiangqian	60	—	—	125	185
Total	540	5,274	177	2,292	8,283

11. 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 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

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 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 2019, no (2018: 7,825,000) 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 33). Details of the share options scheme are set out in Note 33. 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.

12. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, three (2018: three) were directors of the Company whose emoluments are included in the disclosures in Note 11 above. The emoluments of the remaining two (2018: two) highest paid individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	2,554	4,364
Retirement benefit scheme contributions	120	108
Share based payments	815	—
	3,489	4,472

Their remuneration were within the following bands:

	2019 No. of employees	2018 No. of employees
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$2,000,000	—	1
HK$2,000,001 to HK$2,500,000	1	1
	2	2

During the year ended 31 December 2019, no (2018: nil) share options were granted to certain non-director and non-chief executive highest paid.

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.

13. DIVIDEND

	2019 HK$'000	2018 HK$'000
Dividends recognised as distribution during the year: 2018 final dividend - HK$0.04 (2018: 2017 final dividend - HK$0.03) per ordinary share	45,557	28,582

Subsequent to the end of the reporting period, no dividend has been proposed in respect of the year ended 31 December 2019 (2018: final dividend of HK$0.04 per ordinary share in respect of the year ended 31 December 2018).

14. 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:

	2019 HK$'000	2018 HK$'000
Earnings		
Profit for the year attributable to the owners of the Company	203,059	324,030

	2019 '000	2018 '000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	1,138,920	1,113,945
Effect of dilutive potential ordinary shares arising from the outstanding share options	15,388	3,131
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,154,308	1,117,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Specialised equipment HK$'000	Machinery and equipment HK$'000	Furnitures, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At 1 January 2018	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
Additions	–	4,748	–	16,940	3,239	–	24,927
Acquired on acquisition of a subsidiary	13,304	1,808	–	2,676	1,005	486	19,279
Disposals/written off	(3,799)	(172)	(12,095)	(14,271)	(3,695)	(599)	(34,631)
Transfer to investment properties	(95,890)	(11,998)	–	–	–	–	(107,888)
Exchange adjustments	(6,597)	(1,575)	(208)	(1,659)	(918)	(46)	(11,003)
At 31 December 2019	340,595	83,075	8,361	81,506	36,501	1,829	551,867
ACCUMULATED DEPRECIATION							
At 1 January 2018	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
Charge for the year	8,874	8,237	468	16,925	2,703	159	37,366
Eliminated on disposals/written off	(31)	–	(12,095)	(13,244)	(2,825)	(428)	(28,623)
Eliminated on transfer to investment properties	(8,088)	(3,693)	–	–	–	–	(11,781)
Exchange adjustments	(654)	(737)	(175)	(762)	(621)	(29)	(2,978)
At 31 December 2019	38,209	41,192	6,878	36,476	25,485	1,497	149,737
CARRYING VALUES							
At 31 December 2019	302,386	41,883	1,483	45,030	11,016	332	402,130
At 31 December 2018	395,469	52,879	1,984	44,263	10,642	193	505,430

15. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2019, the transfer of leasehold land and building and leasehold improvements to investment properties with carrying amount of HK$96,107,000 (2018: HK$189,297,000), 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 and the right-of-use assets transferred as disclosed in Note 17 at the date of transfer was HK$136,255,000 (2018: HK$277,288,000), resulting in recognition of surplus on revaluation of HK$30,681,000 (2018: HK$55,272,000) in OCI.

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.

16. INVESTMENT PROPERTIES

The Group leases out various offices under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 month to 4 years, with unilateral rights to extend the lease beyond initial period held by lessees only.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	HK$'000
FAIR VALUE	
At 1 January 2018	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**
Acquired on acquisition of a subsidiary	**7,088**
Transfer from property, plant and equipment and right-of-use assets	**136,255**
Change in fair value of investment properties	**8,586**
Exchange adjustments	**(17,616)**
At 31 December 2019	**961,010**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. INVESTMENT PROPERTIES (continued)

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 2019 was approximately HK$961,010,000 (2018: HK$826,697,000). 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 2019 and 2018 are as follows:

	At 31 December 2019		At 31 December 2018	
	Level 3	Fair value	Level 3	Fair value
	HK$'000	HK$'000	HK$'000	HK$'000
Commercial property units located				
– Hong Kong	27,900	27,900	28,900	28,900
– Jinan	573,343	573,343	525,525	525,525
– Beijing - Tianyuan Network	350,379	350,379	272,272	272,272
– Beijing - Zhengzhou Hualiang	5,890	5,890	—	—
– Changsha - Zhengzhou Hualiang	3,498	3,498	—	—
	961,010	961,010	826,697	826,697

16. 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: 5.30% (2018: 5.25%) – Reversion yield 5.80% (2018: 5.75%) – Market rent of comparable properties ranged from monthly amounts of RMB54.44 to RMB73.50 (2018: 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 - Tianyuan Network	Level 3	Income capitalisation approach Key inputs are: – Term yield – Reversionary yield – Market rent of comparable properties	Key and unobservable inputs are: – Term yield: 4.70% (2018: 4.70%) – Reversion yield 5.20% (2018: 5.20%) – Market rent of comparable properties ranged from monthly amounts of RMB128.25 to RMB171.00 (2018:RMB121.67 to RMB144.00) per square meter for office building and RMB380.00 to RMB570.00 (2018:RMB400.00 to RMB440.00) 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.

16. INVESTMENT PROPERTIES (continued)

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 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.
Office premises located in Beijing - Zhengzhou Hualiang	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.
Office premises located in Changsha - Zhengzhou Hualiang	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.

17. RIGHT-OF-USE ASSETS

	Leasehold lands HK$'000	Leased properties HK$'000	Total HK$'000
Carrying amount at 1 January 2019	58,218	8,291	66,509
Additions	—	10,597	10,597
Depreciation charge	(1,259)	(6,685)	(7,944)
Eliminated on transfer to investment properties	(9,467)	—	(9,467)
Exchange adjustments	(887)	(53)	(940)
Carrying amount at 31 December 2019	46,605	12,150	58,755
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			50,678
Total cash outflow for leases			58,921

For both years, the Group leases various lands and offices for its operations. Lease contracts are entered into for fixed term of 1 month to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Restrictions or covenants on leases

In addition, lease liabilities of HK$11,196,000 are recognised with related right-of-use assets of HK$58,755,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. PREPAID LEASE PAYMENTS

	At 31 December 2018 HK$'000
Analysed for reporting purposes as:	
Current asset	1,445
Non-current asset	56,773
	58,218

19. OTHER INTANGIBLE ASSETS

	Registered software HK$'000	Customers base HK$'000	Development expenditures HK$'000	Copyrights and trademarks HK$'000	Total HK$'000
COST					
At 1 January 2018	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
Acquired on acquisition of a subsidiary	4,218	—	—	6,283	10,501
Addition	—	—	42,574	—	42,574
Disposal	(1,943)	—	—	—	(1,943)
Exchange adjustments	(746)	—	(939)	(227)	(1,912)
At 31 December 2019	28,894	57,385	59,025	6,056	151,360
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2018	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
Addition	1,455	—	—	—	1,455
Disposal	(235)	—	—	—	(235)
Exchange adjustments	(592)	—	—	—	(592)
At 31 December 2019	25,397	57,385	—	—	82,782
CARRYING AMOUNTS					
At 31 December 2019	3,497	—	59,025	6,056	68,578
At 31 December 2018	2,596	—	17,390	—	19,986

19. OTHER INTANGIBLE ASSETS (continued)

Except for copyrights and trademarks, the above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

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

Copyrights have a legal life of 25 years but is renewable every 25 years at minimal cost. Trademarks have a legal life of 10 years but is renewable every 10 years at minimal cost. The directors of the Company are of the opinion that the Group would renew copyrights and trademarks continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that copyrights and trademarks have no foreseeable limit to the period over which the copyrighted and trademarked products are expected to generate net cash flows for the Group.

As a result, copyrights and trademarks are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. Copyrights and trademarks will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

Development expenditures are capitalized based on the basis of the costs incurred on the development project, GS Cloud. As at 31 December 2019, the project has not yet been completed.

20. EQUITY INSTRUMENT AT FVTOCI

	2019 HK$'000	2018 HK$'000
Unlisted investment:		
Equity securities		
At 1 January	**40,849**	36,102
Fair value change	**(4,548)**	6,885
Exchange adjustments	**(692)**	(2,138)
At 31 December	**35,609**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. INTEREST IN ASSOCIATES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Cost of investment in associates - unlisted	325,701	102,114
Share of post-acquisition profits and OCI, net of dividends received	148,207	197,601
	473,908	299,715

As at 31 December 2019 and 2018, the Group had interest in the following associates:

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
			2019	2018	2019	2018	
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%	30%	30%	Manufacturing and sale of wireless global system for communications mobile phones and value added software for mobile phones
Inspur Group Finance Co., Ltd ("Inspur Finance") 浪潮集團財務有限公司 (note)	Domestic limited liability company ("DLLC")	PRC	20%	–	20%	–	Providing financial services to Inspur Group Co., Ltd and its subsidiaries

\# The English names of the associates are for identification purpose only.

Note: On 13 December 2019, Inspur Genersoft, a subsidiary of the Group, invested HK$223,587,000 (RMB200,000,000) to set up Inspur Group Finance Co., Ltd. with Inspur Group Co., Ltd. and Inspur Software Co., Ltd.. The proportion of nominal value of registered capital held by the Group is 20% with the equal proportion of voting power held.

21. INTEREST IN ASSOCIATES (continued)

Summarised financial information of the associates

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.

Qingdao Lejin

	2019 HK$'000	2018 HK$'000
Current assets	1,528,646	1,892,749
Non-current assets	197,557	148,376
Current liabilities	(879,101)	(1,042,076)
Non-current liabilities	(12,541)	—
Revenue	4,038,468	6,780,724
Profit for the year	152,503	639,498
Other comprehensive expense for the year	(16,370)	(47,047)
Total comprehensive income for the year	136,133	592,451
Accrual Employee Award and Welfare Fund	(12,244)	(1,876)
Dividend paid during the year	(288,376)	(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:

	2019 HK$'000	2018 HK$'000
Net assets of Qingdao Lejin	834,561	999,049
Proportion of the Group's ownership interest in Qingdao Lejin	30%	30%
Group's share of net assets of Qingdao Lejin	250,369	299,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. INTEREST IN ASSOCIATES (continued)

Inspur Finance

	2019 HK$'000
Current assets	1,117,724
Current liabilities	(23)
Revenue	318
Profit for the year	70
Other comprehensive expense for the year	(310)
Total comprehensive expense for the year	(240)

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:

	2019 HK$'000
Net assets of Inspur Finance	1,117,701
Proportion of the Group's ownership interest in Inspur Finance	20%
Group's share of net assets of Inspur Finance	223,539

22. INTEREST IN A JOINT VENTURE

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Cost of investment in a joint venture - unlisted	185,266	185,266
Share of post-acquisition losses and other comprehensive expenses	(87,032)	(88,470)
	98,234	96,796

22. INTEREST IN A JOINT VENTURE (continued)

As at 31 December 2019 and 2018, 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.

	2019 HK$'000	2018 HK$'000
Current assets	**258,636**	236,689
Non-current assets	**189,763**	222,055
Current liabilities	**(120,183)**	(131,488)
Non-current liabilities	**(4,060)**	(6,785)
Non-controlling interest	**(29,453)**	(30,085)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**55,781**	48,049

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of the joint venture (continued)

	2019 HK$'000	2018 HK$'000
Revenue	264,249	204,289
Profit (loss) for the year	9,840	(128,524)
Other comprehensive expense for the year	(5,523)	(17,763)
Total comprehensive income (expense) for the year	4,317	(146,287)

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:

	2019 HK$'000	2018 HK$'000
Net assets attributable to owners of the Inspur Cloud	294,703	290,386
Proportion of the Group's ownership interest in Inspur Cloud	33.33%	33.33%
Carrying amount of the Group's interest in Inspur Cloud	98,234	96,796

23. INVENTORIES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Computer equipment and software products	873	16,194

24. TRADE AND BILLS RECEIVABLES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Trade and bills receivables		
- contracts with customers	399,051	318,211
Less: Loss allowance	(45,903)	(37,062)
Total trade and bills receivables	353,148	281,149

24. TRADE AND BILLS RECEIVABLES (continued)

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

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
0-30 days	241,539	182,716
31-60 days	35,373	22,607
61-90 days	16,900	4,574
91-120 days	10,082	10,763
121-180 days	12,331	19,187
Over 180 days	36,923	41,302
	353,148	281,149

As at 31 December 2019, included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of HK$111,609,000 which are past due as at the reporting date. Out of the past due balances, HK$49,254,000 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 2018, included in the Group's trade and bills 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.

Movement in the allowance for doubtful debts:

	2019 HK$'000	2018 HK$'000
31 December 2017	—	48,744
Adjustment upon application of HKFRS 9	—	(6,380)
1 January	37,062	42,364
Impairment losses recognised	11,047	6,256
Impairment losses reversed	(1,380)	(9,488)
Exchange adjustments	(826)	(2,070)
31 December	45,903	37,062

Details of impairment assessment of trade and bills receivables for the year ended 31 December 2019 are set out in Note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. CONTRACT ASSETS & CONTRACT LIABILITIES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
CONTRACT ASSETS		
Current - software development	**383,875**	191,885
CONTRACT LIABILITIES		
Current - software development	**(672,868)**	(511,281)

As at 1 January 2018, contract assets amounted to HK$96,896,000 with contract liabilities amounted to HK$523,255,000.

Typical payment terms which have 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 initially recognizes consideration received as contract assets. Contract assets are transferred to trade and bills receivables when rights in consideration become unconditional other than passage of time.

The Group also typically agrees to a retention period ranging from 6 months to 1 year 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 gives 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 of orders.

26. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Amounts due from related companies:		
Trading in nature		
Fellow subsidiaries	271,237	319,842
Ultimate holding company	3,292	4,588
	274,529	324,430
Non-trading in nature		
Fellow subsidiaries	3,700	3,720
Ultimate holding company	786	780
	4,486	4,500
Total amounts due from related companies	279,015	328,930
Analysed as:		
Amounts due from fellow subsidiaries	274,937	323,562
Amount due from ultimate holding company	4,078	5,368
Total amounts due from related companies	279,015	328,930

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. Details of impairment assessment are set out in Note 38.

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 0.30% to 1.61% (2018: 0.01% to 1.35%) per annum.

At 31 December 2019, 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 0.30% to 1.30% (2018: 0.55% to 1.35%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. TRADE PAYABLES

The following is an aged analysis of trade payable presented based on the invoice date.

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
0-60 days	213,659	48,424
61-90 days	14,195	4,734
>90 days	107,097	127,495
	334,951	180,653

29. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Salaries and welfare payable	185,892	159,960
Bonus payable	161,124	171,328
Other tax payable	57,144	61,733
Other payable for the acquisition of additional interest in a subsidiary	55,006	—
Others	48,918	89,253
	508,084	482,274

30. LEASE LIABILITIES

	At 31 December 2019 HK$'000
Lease liabilities payable:	
Within one year	6,563
Within a period of more than one year but not more than two years	4,103
Within a period of more than two years but not more than five years	530
	11,196
Less: Amount due for settlement with 12 months shown under current liabilities	(6,563)
Amount due for settlement after 12 months shown under non-current liabilities	4,633

30. LEASE LIABILITIES (continued)

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	JPY HK$'000	USD HK$'000
31 December 2019	**201**	**4,076**

Note: Japanese Yen ("JPY"), United States Dollar ("USD").

31. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	At 31 December 2019 HK$'000	At 31 December 2018 HK$'000
Trading in nature		
Fellow subsidiaries	**41,691**	62,036
Ultimate holding company	**718**	736
	42,409	62,772
Non-trading in nature		
Fellow subsidiaries	**6,938**	14,096
Ultimate holding company	**435**	343
	7,373	14,439
Total amounts due to related companies	**49,782**	77,211
Analysed as:		
Amounts due to fellow subsidiaries	**48,629**	76,132
Amount due to ultimate holding company	**1,153**	1,079
Total amounts due to related companies	**49,782**	77,211

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2019	2018	**2019**	2018
	'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	**1,138,920**	952,736	**11,389**	9,527
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**	1,138,920	**11,389**	11,389

33. 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 2019, the number of share options had been granted and remained outstanding under the Option Schemes are 60,000,000 shares (2018: 60,000,000 shares) representing 5% (2018: 5%) 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.

33. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. 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 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 Company 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 the 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
Share price	HK$3.05	HK$2.06
Exercise price	HK$3.16	HK$2.06
Expected volatility	46.37%	50.69%
Expected life	10 years	10 years
Risk - free rate	2.48%	1.75%
Expected dividend yield	1.14%	1.62%

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.

33. SHARE OPTION SCHEMES (continued)

Equity-settled share options scheme (continued)

Details of specific categories of options as at 31 December 2019 are as follows:

	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 December 2017 to 30 November 2027	0.90	2.06
	1 December 2017	1 December 2018 to 30 November 2027	0.90	2.06
	1 December 2017	1 December 2019 to 30 November 2027	0.93	2.06
2018 Option	Scenario 1: Options granted to independent directors			
	16 October 2018	16 October 2018 to 15 October 2028	1.45	3.16
	16 October 2018	16 October 2019 to 15 October 2028	1.45	3.16
	16 October 2018	16 October 2020 to 15 October 2028	1.47	3.16
	Scenario 2: Vesting condition linked with market capital			
	16 October 2018	16 October 2018 to 15 October 2028	1.36	3.16
	Scenario 3: Vesting condition linked with KPI			
	16 October 2018	1 January 2019 to 15 October 2028	1.35	3.16
	16 October 2018	1 January 2020 to 15 October 2028	1.36	3.16
	16 October 2018	1 January 2021 to 15 October 2028	1.39	3.16

33. 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 2019 and 2018:

	Outstanding at 1 January 2018	Granted during the year 2018	Outstanding at 31 December 2018 and 31 December 2019
2017 December Option	30,000,000	—	30,000,000
2018 Option	—	30,000,000	30,000,000
	30,000,000	30,000,000	60,000,000
Weighted average exercise price	2.06	3.16	2.61

The number of share options exercisable at the end of reporting period was 34,800,000 (2018: 19,200,000).

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

	Outstanding at 1 January 2018	Granted during the year 2018	Outstanding at 31 December 2018 and 31 December 2019
2017 December Option	3,000,000	—	3,000,000
2018 Option	—	7,825,000	7,825,000
	3,000,000	7,825,000	10,825,000

The Group recognised the total expense of HK$10,315,000 (2018: HK$46,917,000) for the year ended 31 December 2019 in relation to share options granted by the Company.

34. 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.

35. 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 2018	(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)
Acquisitions	–	(639)	(425)	–	–	–	–	(1,064)
Transfer from property, plant and equipment to investment properties	–	10,847	(10,847)	–	–	–	–	–
(Charge) credit to profit or loss	(1,418)	1,099	(4,986)	–	–	–	3,665	(1,640)
Charge to other comprehensive expense	–	–	(1,986)	1,136	–	–	–	(850)
Exchange adjustments	–	904	3,069	78	–	–	84	4,135
At 31 December 2019	(13,208)	(57,338)	(152,934)	(3,882)	–	–	(3,627)	(230,989)

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$1,086,702,000 (2018: HK$924,054,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. ACQUISITION OF SUBSIDIARIES

On 14 January 2019, the Group acquired a 60% interest in Zhengzhou Hualiang from Zhengzhou Grain Wholesale Market Co., Ltd. and China Grain Reserves Group Co., Ltd.. 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
	69,564

Acquisition-related costs amounting to HK$124,000 have been excluded from the cost of acquisition and have been recognized as an expense in the current year, within the 'Administrative expenses' line item in the consolidated statement of profit or loss.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Current assets	
Cash and cash equivalents	90,373
Trade and other receivables	20,287
Inventories	14,442
Non-current assets	
Property, plant and equipment	19,279
Investment property	7,088
Other intangible assets	10,501
Deferred tax assets	1,154
Current liabilities	
Trade and other payables	23,948
Contract liabilities	25,262
Other payables, deposits received and accrued expenses	10,375
Non-current liabilities	
Deferred tax liabilities	2,218
	101,321

The fair value of trade and other receivables at the date of acquisition amounted to HK$20,287,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK$27,154,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$6,867,000.

36. ACQUISITION OF SUBSIDIARIES (continued)

Goodwill arising on acquisition (determined on a provisional basis)

	HK$'000
Consideration transferred	69,564
Plus: non-controlling interests (40% in Zhengzhou Hualiang)	40,528
Less: recognised amount of identifiable net assets acquired (100%)	(101,321)
Goodwill arising on acquisition	8,771

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 (RMB60,000,000)	69,564
– Advanced payment in year 2018 (RMB17,000,000)	20,137
– Paid in year 2019 (RMB43,000,000)	50,285
– Exchange adjustment	(858)
Less: cash and cash equivalent balances acquired	(90,373)
Net cash from acquisition of a subsidiary in year 2019	(40,088)

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$280,000 attributable to the additional business generated by Zhengzhou Hualiang. Revenue for the year includes HK$146,909,000 generated from Zhengzhou Hualiang.

The acquisition date was close to 1 January 2019, the amount between 1 January 2019 and the acquisition date is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. 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.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial asset at FVTPL	33	34
Equity Instrument at FVTOCI	35,609	40,849
Debt instruments at FVTOCI	11,503	32,129
Financial assets at amortised cost	1,520,448	1,566,095
Financial liabilities		
Amortised cost	488,657	347,117

38. FINANCIAL INSTRUMENTS (continued)

(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 and bills receivables, other receivables, amounts due from ultimate holding company and fellow subsidiaries, pledged bank deposits and bank balances and cash, trade payable, 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$, RMB and USD and incurs most of the expenditures as well as capital expenditures in HK$, RMB and USD. 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Relative to RMB:				
HK$	—	44,311	—	—
USD	35,220	166,974	—	—
Other currencies	119	128	—	—
Relative to HK$:				
USD	14,937	35,246	—	—
RMB	470	—	—	—
Other currencies	5,056	1,869	—	—

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Market risk** (continued)*

Sensitivity analysis

For the entities of which their functional currency is HK$ while holding assets denominated in USD, the directors of the Company consider that, as HK$ is pegged to USD, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of HK$ against USD and hence only consider the sensitivity of the change in foreign exchange rate of HK$ against currencies other than USD. 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% (2018: 5%) is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates.

Impact on post-tax profit for the year	2019 HK$'000	2018 HK$'000
HK$ impact	—	1,662
USD impact	1,881	7,583
Other currency impact	212	75

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to lease liabilities (see Note 30 for details). The Group is also 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 and debt instruments at FVTOCI 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.

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 (2018: 10 basis points) increase or 10 basis points (2018: 10 basis points) decrease is used, which represents management's assessment of the reasonably possible change in interest rates.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk *(continued)*

Interest rate risk (continued)

If interest rates had been 10 basis points (2018: 10 basis points) higher or 10 basis points (2018: 10 basis points) lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would increase by HK$619,000 (2018: post-tax profit would increase by HK$666,000) and decrease by HK$619,000 (2018: post-tax profit would decrease by HK$666,000), respectively.

Credit risk and impairment assessment

As at 31 December 2019, 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 and bills 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 2019 and 2018 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 and bills receivables, other receivables, 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 and bills receivables as at 31 December 2019 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment *(continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade and bills receivables and contract assets	Other financial assets subject to ECL assessment
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

38. 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 and other items, which are subject to ECL assessment:

	Internal credit rating	12m or lifetime ECL	Gross carrying amount 2019 HK$'000	Gross carrying amount 2018 HK$'000
Debt instruments at FVTOCI				
Debt instruments at FVTOCI	Low risk	12m ECL	11,503	32,129
Financial assets at amortised cost				
Trade and bills receivables (Note 24)	N/A (note ii)	Lifetime ECL (provision matrix)	363,190	292,766
	Loss	Lifetime ECL - credit-impaired	35,861	25,445
			399,051	318,211
Other receivables	Low risk (note i)	12m ECL	8,811	49,627
	Doubtful (note i)	Lifetime ECL - not credit-impaired	55,505	12,149
	Loss	Lifetime ECL - credit-impaired	8,791	6,470
			73,107	68,246
Amount due from ultimate holding company (Note 26)	Low risk (note i)	12m ECL	5,066	5,368
	Loss	Lifetime ECL - credit-impaired	3,301	—
			8,367	5,368
Amounts due from fellow subsidiaries (Note 26)	Low risk (note i)	12m ECL	276,582	323,562
	Loss	Lifetime ECL - credit-impaired	3,185	—
			279,767	323,562
Pledged bank deposits (Note 27)	Low risk	12m ECL	18,998	22,589
Bank balances (Note 27)	Low risk	12m ECL	807,125	865,181
Other items				
Contract assets (Note 25)	N/A (note ii)	Lifetime ECL (provision matrix)	394,482	192,707
	Loss	Lifetime ECL - credit-impaired	50,142	39,245
			444,624	231,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment *(continued)*

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 and bills 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 receivables, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past-due status.

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment because the debtors 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$86,003,000 as at 31 December 2019 were assessed individually.

The following table shows the movement in lifetime ECL that has been recognised for trade and bills receivables under the simplified approach.

	Lifetime ECL (not credit -impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 1 January 2018	21,872	20,492	42,364
Impairment losses recognised	—	6,256	6,256
Impairment losses reversed	(9,488)	—	(9,488)
Exchange	(767)	(1,303)	(2,070)
At 31 December 2018	11,617	25,445	37,062
Impairment losses recognised	—	11,047	11,047
Impairment losses reversed	(1,380)	—	(1,380)
Exchange adjustments	(195)	(631)	(826)
At 31 December 2019	**10,042**	**35,861**	**45,903**

38. 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
At 1 January 2018	813	390	5,297	6,500
Impairment losses recognised	115	845	1,506	2,466
Exchange	(46)	(51)	(333)	(430)
At 1 January 2019	882	1,184	6,470	8,536
Impairment losses recognised	—	746	2,476	3,222
Impairment losses reversed	(617)	—	—	(617)
Exchange adjustments	(8)	(33)	(155)	(196)
At 31 December 2019	257	1,897	8,791	10,945

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
At 1 January 2018	238	33,911	34,149
Impairment losses recognised	622	7,379	8,001
Exchange	(38)	(2,045)	(2,083)
At 1 January 2019	822	39,245	40,067
Impairment losses recognised	9,945	11,795	21,740
Exchange adjustments	(160)	(898)	(1,058)
At 31 December 2019	10,607	50,142	60,749

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. 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 amounts due from related parties.

	12m ECL HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 1 January 2019	—	—	—
Impairment losses recognised	2,672	6,581	9,253
Exchange adjustments	(39)	(95)	(134)
At 31 December 2019	2,633	6,486	9,119

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 and bills receivables, other receivables, amounts due from ultimate holding company and fellow subsidiaries, pledged bank deposits and bank balances and cash) and certain financial liabilities (including trade payable, other payables and amounts due to ultimate holding company and fellow subsidiaries) and lease liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease 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.

38. 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$'000	Total carrying amount at 31 December 2019 HK$'000
2019							
Trade payables	—	72,263	53,043	209,645	—	334,951	334,951
Other payables	—	70,307	3,779	29,838	—	103,924	103,924
Amount due to ultimate holding company	—	1,153	—	—	—	1,153	1,153
Amounts due to fellow subsidiaries	—	48,629	—	—	—	48,629	48,629
Lease liabilities	4.35%	1,666	2,218	3,061	4,755	11,700	11,196
		194,018	59,040	242,544	4,755	500,357	499,853

	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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. FINANCIAL INSTRUMENTS (continued)

(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 2019 HK$'000	2018 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Equity instrument at FVTOCI	**35,609**	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	**11,503**	32,129	Level 2	Discounted cash flow - future cash flows discounted at a rate that reflects the credit risk of various counterparties.

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTOCI HK$'000
At 31 December 2018	40,849
Total gains in OCI	(4,548)
Exchange adjustments	(692)
At 31 December 2019	35,609

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.

39. 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.

	Bank loans HK$'000	Amounts due to fellow subsidiaries - non-trading in nature HK$'000	Amount due to ultimate holding company - non-trading in nature HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2018	(24,020)	(577,972)	(1,935)	—	(603,927)
Consideration for acquiring subsidiaries under common control	—	548,407	—	—	548,407
Repayments of bank loans	23,691	—	—	—	23,691
Repayment to ultimate holding company	—	—	1,551	—	1,551
Repayment to fellow subsidiaries	—	1,976	—	—	1,976
Net effect of exchange rate changes	329	13,493	41	—	13,863
At 31 December 2018	—	(14,096)	(343)	—	(14,439)
Adjustment upon application of HKFRS 16	—	—	—	(8,291)	(8,291)
At 1 January 2019	—	(14,096)	(343)	(8,291)	(22,730)
New leases entered	—	—	—	(10,597)	(10,597)
Interest expenses	—	—	—	(591)	(591)
Repayments of lease liabilities	—	—	—	8,243	8,243
Repayment to fellow subsidiaries	—	6,998	—	—	6,998
Received from ultimate holding company	—	—	(99)	—	(99)
Net effect of exchange rate changes	—	160	7	40	207
At 31 December 2019	—	(6,938)	(435)	(11,196)	(18,569)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. OPERATING LEASES

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
Within one year	14,157
In the second to fifth year inclusive	6,233
	20,390

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$66,848,000 (2018: HK$58,675,000). 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:

	2019 HK$'000	2018 HK$'000
Within one year	**1,381**	1,625
In the second to fifth year inclusive	**1,869**	2,454
	3,250	4,079

41. 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$157,800,000 (2018: HK$144,156,000).

42. PRCRELATED PARTY TRANSACTIONS/BALANCES

Apart from the amounts due from and to related parties as disclosed in Notes 26 and 31, respectively, the Group had entered into the following related party transactions during the year:

	Ultimate holding company		Fellow subsidiaries	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Sales of goods	—	12	312,223	225,957
Services income	7,773	—	879,398	509,949
Property rental and related management service income	14,291	8,031	51,100	48,815
Purchase of goods	—	—	52,135	56,142
Sales commission expenses	70	—	11,167	6,897
Property rental and related management service expenses	118	458	8,707	9,191

All transactions are regarded as connected transactions, pursuant to Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are disclosed in the "Report of the Directors" section in the annual report.

In addition, during the year ended 31 December 2019, certain operating lease rentals in respect of office premises and staff quarters amounted to HK$8,951,000(2018: HK$4,297,000) 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 11, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the material principal subsidiaries of the Company at 31 December 2019 and 2018 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
				2019	2018	2019		2018		
						Directly	Indirectly	Directly	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	USD90,675,000	USD90,675,000	–	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	USD2,317,300	USD2,317,300	–	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	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
Beijing Genersoft 北京通軟科技有限公司	DLLC	PRC	Capital contribution	RMB3,000,000	RMB3,000,000	–	100%	–	100%	Software development
Shenzhen Inspur Zaoshangban Cloud Technology Limited 深圳浪潮早上班雲技術有限公司	DLLC	PRC	Capital contribution	RMB27,950,000/ RMB33,000,000	RMB10,000,000/ RMB20,000,000	–	71.56%	–	100%	Software development
Zhengzhou Hualiang 鄭州華糧科技股份有限公司	DLLC	PRC	Capital Contribution	RMB34,050,000	RMB34,050,000	–	60%	–	–	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 Worldwide Services Limited 浪潮全球服務有限公司	Incorporated	Republic of Seychelles	Ordinary	–	–	–	100%	–	100%	Provision of other software development services
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	–	100%	–	75.99%	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	–	100%	–	75.99%	Software development

\# The English name of these PRC incorporated entities are for identification purpose only.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

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.

44. EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 in mainland China and the subsequent quarantine measures imposed by the mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group's operations are located in mainland China. The Group's project bidding, acceptance, operation and maintenance have been affected to varying degrees since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic.

As the situation remains fluid as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of the COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the first half and full year of 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Non-current Assets		
Interests in subsidiaries	**791,650**	790,214
Current Assets		
Amounts due from subsidiaries	**800,437**	855,197
Other current assets	**160**	200
Bank balances	**331**	13,282
	800,928	868,679
Current Liabilities		
Other payables	**9,050**	9,894
Amounts due to subsidiaries	**106,211**	106,491
	115,261	116,385
Net Current Assets	**685,667**	752,294
Total Assets Less Current Liabilities	**1,477,317**	1,542,508
Capital and Reserves		
Share capital (Note 32)	**11,389**	11,389
Reserves	**1,465,928**	1,531,119
Total Equity	**1,477,317**	1,542,508

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Statement of financial position (continued)

Movement in the Company's capital and reserves

	Share capital HK$'000	Reserves HK$'000	Total HK$'000
At 1 January 2018	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 33)	—	46,917	46,917
At 31 December 2018	11,389	1,531,119	1,542,508
Loss for the year and total comprehensive expense	—	(29,949)	(29,949)
Dividend paid	—	(45,557)	(45,557)
Recognition of equity-settled share-based payment (Note 33)	—	10,315	10,315
At 31 December 2019	**11,389**	**1,465,928**	**1,477,317**

FINANCIAL SUMMARY

	For the year ended 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
RESULTS					
Continuing operations					
Revenue	971,659	1,163,170	1,965,150	2,442,616	**2,897,694**
(Loss) profit before tax	(4,609)	87,737	184,164	363,119	**192,834**
Income tax expenses	(12,920)	(27,163)	(23,267)	(18,672)	**(1,933)**
(Loss) profit for the year from continuing operations	(17,529)	60,574	160,897	344,447	**190,901**
Discontinued operations Profit for the year from discontinued operations	22,896	—	—	—	**—**
Profit for the year	5,367	60,574	160,897	344,447	**190,901**
Profit for the year attributable to:					
Owners of the Company	6,994	59,893	139,201	324,030	**203,059**
Non-controlling interests	(1,627)	681	21,696	20,417	**(12,158)**
	5,367	60,574	160,897	344,447	**190,901**

	At 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	2,632,524	2,658,157	3,861,005	3,681,696	**4,057,848**
Total liabilities	(841,772)	(923,566)	(2,057,979)	(1,628,599)	**(1,979,703)**
	1,790,752	1,734,591	1,803,026	2,053,097	**2,078,145**
TOTAL EQUITY					
Equity attributable to owners of the Company	1,789,587	1,734,331	1,901,483	2,053,941	**2,025,920**
Non-controlling interests	1,165	260	(98,457)	(844)	**52,225**
	1,790,752	1,734,591	1,803,026	2,053,097	**2,078,145**

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