
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, this Composite Document and/or the accompanying Form(s) of Acceptance or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your securities in Inspur International Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or transferee(s), licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms and conditions of the Offers. This Composite Document is not for release, publication or distribution in or into any jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance.

**Inspur Cloud Computing
Investment Limited**
浪潮雲投有限公司
(Incorporated in Hong Kong)

inspur 浪潮

INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司
(Incorporated in the Cayman Islands
with limited liability)
(Stock Code: 596)

COMPOSITE OFFER AND RESPONSE DOCUMENT

MANDATORY CONDITIONAL CASH OFFERS BY ABCI CAPITAL LIMITED ON BEHALF OF INSPUR CLOUD COMPUTING INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES OF INSPUR INTERNATIONAL LIMITED (OTHER THAN THOSE SHARES OWNED BY INSPUR CLOUD COMPUTING INVESTMENT LIMITED AND INSPUR OVERSEAS INVESTMENT LIMITED) AND FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF INSPUR INTERNATIONAL LIMITED

Financial Adviser to Inspur Cloud Computing Investment Limited



Independent Financial Adviser to the Independent Board Committee

AMASSE CAPITAL
寶積資本

Unless the context otherwise requires, capitalised terms used in this Composite Document (including this cover page) have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A "Letter from ABCI" containing, among other things, the details of the terms and conditions of the Offers are set out on pages 9 to 17 of this Composite Document. A "Letter from the Board" is set out on pages 18 to 25 of this Composite Document.

A "Letter from the Independent Board Committee" containing its recommendations to the Independent Shareholders and the Optionholders in respect of the Offers is set out on pages 26 and 27 of this Composite Document.

A "Letter from the Independent Financial Adviser" containing its advice and recommendations to the Independent Board Committee in respect of the Offers is set out on pages 28 to 44 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out in "Appendix I — Further Terms of the Offers" to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptance of the Share Offer should be received by the Share Registrar and acceptance of the Option Offer should be received by the company secretary of the Company by no later than 4: 00 p.m. on Thursday, 28 September 2017 or such later time(s) and/or date(s) as the Offeror may determine and announce, in accordance with the Takeovers Code.

The Inspur Offer Shareholders and the Optionholders should inform themselves of and observe any applicable legal, tax or regulatory requirements.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside of Hong Kong should read the details in this regard which are contained in the section headed "Overseas Inspur Offer Shareholders and Optionholders" in the "Letter from ABCI" in this Composite Document before taking any action. It is the responsibility of any overseas Inspur Offer Shareholders and overseas Optionholders wishing to take any action in relation to the Share Offer and the Option Offer, respectively, to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including obtaining all governmental, exchange control or other consents which may be required and the compliance with all necessary formalities or legal requirements and the payment of any issue, transfer or other taxes payable by such overseas Inspur Offer Shareholders or overseas Optionholders in respect of the acceptance of the Offers (as applicable) in such jurisdiction. The overseas Inspur Offer Shareholders and the overseas Optionholders are advised to seek professional advice on deciding whether to accept the Offers (as applicable).

This Composite Document is issued jointly by the Offeror and the Company.

The English texts of this Composite Document and the accompanying Form(s) of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

7 September 2017

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EXPECTED TIMETABLE

The timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made in the event that there is any change to the following timetable.

Event	Hong Kong Time
Despatch date of this Composite Document and the accompanying Form(s) of Acceptance	Thursday, 7 September 2017
Opening date of the Offers	Thursday, 7 September 2017
First Closing Date (<i>Note 1</i>)	Thursday, 28 September 2017
Latest time for acceptance of the Offers on the first Closing Date (<i>Note 2</i>)	4:00 p.m. on Thursday, 28 September 2017
Announcement of the results of the Offers as at the first Closing Date, on the website of the Stock Exchange	no later than 7:00 p.m. on Thursday, 28 September 2017
Latest date for despatch of cheques for payment of the amounts due under the Offers in respect of valid acceptances received by the first Closing Date, assuming that the Offers become or are declared unconditional on the first Closing Date (<i>Note 3</i>)	Wednesday, 11 October 2017
Latest time and date for acceptance of the Offers assuming that the Offers become or are declared unconditional in all respects on the first Closing Date (<i>Note 4</i>)	4 p.m. on Thursday, 12 October 2017
Latest time and date by which the Offers can become or be declared unconditional as to acceptances (<i>Note 5</i>)	7 p.m. on Monday, 6 November 2017

EXPECTED TIMETABLE

Notes:

- (1) The Offers will close for acceptances at 4:00 p.m. on Thursday, 28 September 2017 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine subject to compliance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). In the event that the Offers have not become unconditional on the first Closing Date, the Offeror will issue an announcement stating whether the Offers have lapsed or have been revised or extended to another Closing Date or until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given, before the Offers are closed, to the Inspur Offer Shareholders and the Optionholders who have not accepted the relevant Offers.
- (2) If you wish to accept the Offers, you should ensure your duly completed and signed Form(s) of Acceptance and the relevant documents arrive at the Share Registrar (for the Share Offer) or the company secretary of the Company (for the Option Offer) by no later than the prescribed time. If you choose to deliver the documents by post, you should consider the timing requirements for postage.

Beneficial owners of the Offer Shares who hold their Offer Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

All acceptances, instructions, authorisations and undertakings given by the Inspur Offer Shareholders in the WHITE Form of Share Offer Acceptance and by the Optionholders in the PINK Form of Option Offer Acceptance shall be irrevocable except as permitted under the Takeovers Code.

- (3) Payment of the consideration (after deducting the seller's ad valorem stamp duty) for the Offer Shares tendered for acceptance under the Share Offer will be posted by ordinary post to the Inspur Offer Shareholders who accept the Share Offer at their own risk, and payment of the consideration for the Options surrendered for cancellation under the Option Offer will be delivered to the office of the Company in Hong Kong at Room B&C, 30/F, Tower A, Billion Center, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong for collection by the Optionholders. Payment will be made as soon as possible, but in any event within seven (7) Business Days following the later of (i) the date on which the Offers become or are declared unconditional in all respects; and (ii) the date of receipt by the Share Registrar (in respect of the Share Offer) or the company secretary of the Company (in respect of the Option Offer) of all the relevant documents to render each acceptance under the relevant Offers complete and valid in accordance with the Takeovers Code, this Composite Document and the relevant accompanying Form(s) of Acceptance.
- (4) Pursuant to Rule 15.3 of the Takeovers Code, the final Closing Date should be no less than fourteen (14) days after the date on which the Offers become or are declared unconditional in all respects. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine subject to compliance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code).
- (5) In accordance with the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day this Composite Document is posted. Accordingly, unless the Share Offer has previously become or been declared unconditional as to acceptances or has been extended with the consent of the Executive, the Offers will lapse at 7:00 p.m. on Monday, 6 November 2017. Without prejudice to the rights of the Offeror set out in note (1) above, the Offeror is under no obligation to extend the Offers beyond the first Closing Date, if the Offers have not become unconditional on or before the first Closing Date.

EXPECTED TIMETABLE

Effect of bad weather on the latest time for acceptance of the Offers and/or the latest date for despatch of cheques

If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning in force in Hong Kong:

- (a) at any time before 12: 00 noon but no longer in force at or after 12: 00 noon on the latest date for acceptance of the Offers and/or the latest date for despatch of cheques for the amounts due under the Offers in respect of valid acceptances (as the case may be), the latest time for acceptance of the Offers will remain at 4: 00 p.m. on the same Business Day and/or the latest date for despatch of cheques will remain on the same Business Day; or
- (b) at any time between 12: 00 noon and 4: 00 p.m. on the latest date for acceptance of the Offers and/or the latest date for despatch of cheques for the amounts due under the Offers in respect of valid acceptances (as the case may be), the latest time for acceptance of the Offers will be rescheduled to 4: 00 p.m. on the following Business Day and/or the latest date for despatch of cheques will be rescheduled to the following Business Day.

DEFINITIONS

“ABCI”	ABCI Capital Limited, a corporation licensed by the SFC to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the agent making the Offers on behalf of the Offeror and the financial adviser to the Offeror in respect of the Offers
“acting in concert”	has the meaning ascribed thereto under the Code;
“Announcement”	means the joint announcement issued by the Offeror and the Company dated 3 August 2017;
“associate(s)”	has the meaning ascribed thereto under the Code;
“Board”	means the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
“Closing Date”	means the first closing date of the Share Offer as set out in the section headed “Expected Timetable” in this Composite Document, or any subsequent closing date as may be announced by the Offeror in compliance with the Takeovers Code;
“Code” or “Takeovers Code”	means the Hong Kong Code on Takeovers and Mergers;
“Company”	means Inspur International Limited (浪潮國際有限公司), a company incorporated in the Cayman Islands with limited liability, whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 596)
“Composite Document”	means this composite offer and response document in respect of the Offers jointly issued by the Offeror and the Company in accordance with the Code, as may be revised or supplemented as appropriate;
“Concert Parties”	means parties acting in concert (as such term is defined in the Takeovers Code) with the person or party as specified and as determined in accordance with the Takeovers Code;
“Condition”	means the condition to the Share Offer, as set out in the Letter from ABCI;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;

DEFINITIONS

“Despatch Date”	means the date of despatch of this Composite Document to the Inspur Offer Shareholders;
“Director”	directors of the Company
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Forms of Acceptance”	means the White Form of Acceptance in respect of the Share Offer and the Pink Form of Acceptance in respect of the Option Offer accompanying this Composite Document;
“Group”	means the Company and its subsidiaries;
“HK\$” or “HKD”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“ICBC (Asia)”	means Industrial and Commercial Bank of China (Asia) Limited
“Independent Board Committee”	means the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun, Mr. Ding Xiangqian, and Mr. Samuel Y. Shen established for the purpose of making a recommendation to the Independent Shareholders and the Optionholders in relation to the Offers;
“Independent Financial Adviser” or “Amasse”	means Amasse Capital Limited, the independent financial adviser to the Independent Board Committee in respect of the Offers. Amasse Capital Limited is a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO;
“Independent Shareholders”	means Shareholders other than the Offeror and its Concert Parties
“Inspur Cheeloo Overseas”	means Inspur Cheeloo Overseas Investment And Development Co., Limited 浪潮齊魯海外投資發展有限公司, an investment holding company incorporated in Hong Kong with limited liability;
“Inspur Group”	means Inspur Group Co., Ltd. (浪潮集團有限公司), a company established in the PRC with limited liability;

DEFINITIONS

“Inspur Offer Shareholders”	means the Shareholders other than the Offeror and Inspur Overseas;
“Inspur Overseas”	means Inspur Overseas Investment Limited (浪潮海外投資有限公司), an investment holding company incorporated in the British Virgin Islands with limited liability;
“Inspur Software Group”	means Inspur Software Group Co., Ltd. (浪潮軟件集團有限公司), a company established in the PRC with limited liability
“Ji’nan Inspur Wireless Communication”	means Ji’nan Inspur Wireless Communication Co., Ltd. (濟南浪潮無線通信有限公司), a company established in the PRC with limited liability;
“Last Trading Date”	means 28 July 2017, being the last trading day in respect of the Shares prior to the publication of the Announcement;
“Latest Practicable Date”	means 5 September 2017, being the latest practicable date prior to the despatch of this Composite Document for the purpose of ascertaining certain information contained herein;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“NDRC”	means the National Development and Reform Commission of the PRC or any of its local delegates;
“Offer Date”	means the date of this Composite Document on which the Offers are made;
“Offer Share(s)”	means issued Share(s) other than those Shares already owned or agreed to be acquired by the Offeror and Inspur Overseas;
“Offer Period”	means the period beginning 3 August 2017, being the date of the Announcement, until the final Closing Date, or if earlier, when the Offers lapse;
“Offeror”	means Inspur Cloud Computing Investment Limited 浪潮雲投有限公司, a company incorporated in Hong Kong with limited liability;
“Offers”	means both the Share Offer and the Option Offer and “Offer” means either of them;

DEFINITIONS

“Option Offer”	means the mandatory conditional general cash offer made by ABCI on behalf of the Offeror to cancel all outstanding Options in accordance with the terms and conditions set out in this Composite Document, the Pink Form of Acceptance and any subsequent revision or extension of such offer;
“Optionholders”	means the holders of the Options from time to time;
“Options”	means the 43,820,000 outstanding share options granted by the Company pursuant to the Share Option Scheme;
“PRC”	means the People’s Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, Macau and Taiwan;
“Pre-Condition”	means the pre-condition to the making of the Offers, as set out under the section headed “Pre-Condition to the Offers” of the Announcement;
“Register”	means the register of members of the Company;
“Relevant Authority(ies)”	means any government, governmental, quasigovernmental, statutory or regulatory authority, body, agency, tribunal, court or institution;
“Relevant Period”	means the period commencing 3 February 2017, being the date falling six months preceding the date of the commencement of the Offer Period, up to and including the Latest Practicable Date;
“RMB”	means Renminbi, the lawful currency of the PRC;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share Offer”	means the mandatory conditional cash offer made by ABCI on behalf of the Offeror to acquire all of the Offer Shares in accordance with the terms and conditions set out in this Composite Document, the White Form of Acceptance and any subsequent revision or extension of such offer;
“Share Offer Price”	means the price at which the Share Offer is made, being HK\$2.10 per Offer Share;
“Share Option Scheme”	means the share option scheme adopted by the Company on 10 November 2008, as amended from time to time;

DEFINITIONS

“Share Registrar” or “Computershare”	means Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar and transfer office of the Company in Hong Kong;
“Shareholders”	means registered holders of Shares from time to time;
“Shares”	means the ordinary shares of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it in the Listing Rules;
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules; and
“Unconditional Date”	means the date on which the Share Offer becomes or is declared unconditional in all respects.

LETTER FROM ABCI



ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

7 September 2017

To the Inspur Offer Shareholders and Optionholders

Dear Sir or Madam,

1. INTRODUCTION

We are the financial adviser to the Offeror.

On 3 August 2017, the Offeror and the Company jointly announced that ABCI, on behalf of the Offeror, intended to make pre-conditional voluntary conditional cash offers (i) to acquire all of the outstanding Shares held by Inspur Offer Shareholders; and (ii) to cancel all the outstanding Options, subject to the satisfaction of the Pre-Condition.

On 8 August 2017, the Offeror and the Company jointly announced that the Pre-Condition had been satisfied.

On 22 August 2017 the Offeror and the Company jointly announced that the Offeror acquired a total of 18,600,000 Shares on 18 August 2017, 21 August 2017 and 22 August 2017, representing approximately 2.06% of the entire share capital of the Company as at 22 August 2017, being the date of the joint announcement. Therefore, the Offeror was required to make mandatory conditional cash offers (i) to acquire all of the outstanding Shares held by Inspur Offer Shareholders; and (ii) to cancel all the outstanding Options.

This letter forms part of this Composite Document and sets out certain background information on the Offeror, the reasons for making the Offers and the intentions of the Offeror in relation to the Company. The terms of the Offers are set out in this letter, Appendix I to this Composite Document and in the accompanying Forms of Acceptance.

Your attention is also drawn to the letter from the Board on pages 18 to 25, the letter from the Independent Board Committee on pages 26 to 27 and the letter from the Independent Financial Adviser on pages 28 to 44 of this Composite Document.

2. PRE-CONDITION TO THE OFFERS

The making of the Offers was subject to the satisfaction of the pre-condition that the Offeror's ultimate parent company, Inspur Group would obtain approval from NDRC in connection with the Offers. On 8 August 2017, the Offeror and the Company jointly announced that NDRC had granted its approval in connection with the Offers. Accordingly, the Pre-Condition has been satisfied.

LETTER FROM ABCI

3. THE OFFERS

The Offers are hereby made by ABCI on behalf of the Offeror in compliance with the Takeovers Code on the basis set out below.

The Share Offer

Consideration of the Share Offer

For each Offer ShareHK\$2.10 in cash

The Share Offer is extended to all Inspur Offer Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired with all rights attached thereto as at the date of this Offer or which subsequently become attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of this Offer, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights. If, after the date of this Offer, any dividend or other distribution (whether of profit or capital) is made or paid in respect of the Offer Shares, the Offeror reserves the right to reduce the Share Offer Price and the price for cancellation of the Options by an amount equal to the amount of such dividend or other distribution.

The Option Offer

- (a) In respect of Options with an exercise price of HK\$1.34:

For cancellation of each such OptionHK\$0.76 in cash

- (b) In respect of Options with an exercise price of HK\$1.63:

For cancellation of each such OptionHK\$0.47 in cash

- (c) In respect of Options with an exercise price of HK\$1.71:

For cancellation of each such OptionHK\$0.39 in cash

In respect of the Options with exercise price of HK\$3.41, as the exercise price is above the Share Offer Price, ABCI, on behalf of the Offeror, makes a nominal cash offer for the cancellation of such Options on the following terms:

- (d) In respect of Options with an exercise price of HK\$3.41:

For cancellation of each such OptionHK\$0.01 in cash

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

LETTER FROM ABCI

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be cancelled.

If any Option is currently exercisable and is exercised in accordance with the terms of the Share Option Scheme prior to the Closing Date, any Shares issued as a result of the exercise of those Options prior to the Closing Date will be subject to and eligible to participate in the Share Offer.

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional in all respects, an Optionholder shall be entitled to exercise the Options (to the extent not already exercised) to its full extent (whether or not the Options are currently exercisable) or to the extent specified in the Optionholder's notice to the Company in exercise of the Option at any time before the final Closing Date. The Option Offer will remain open for at least 14 days after the date on which the Share Offer becomes or is declared unconditional in all respects. The Options not exercised on or before the final Closing Date shall lapse.

Comparisons of value

The Share Offer Price of HK\$2.10 per Offer Share represents:

- (a) a premium of 20.0% over the closing price of HK\$1.75 per Share as quoted on the Stock Exchange on 28 July 2017, being the Last Trading Date;
- (b) a premium of approximately 24.4% over the average closing price of approximately HK\$1.69 per Share for the last five consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (c) a premium of approximately 24.2% over the average closing price of approximately HK\$1.69 per Share for the last ten consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (d) a premium of approximately 26.1% over the average closing price of approximately HK\$1.67 per Share for the last 30 consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (e) a premium of approximately 0.5% over the closing price of HK\$2.09 per Share as quoted on the Stock Exchange on 5 September 2017, being the Latest Practicable Date; and
- (f) a premium of approximately 9.4% over the net asset value of the Company at HK\$1.92 per Share as at 31 December 2016.

LETTER FROM ABCI

Highest and lowest Share prices

The highest and lowest closing Share prices during the Relevant Period:

	Closing Share price (HK\$)	Date quoted on the Stock Exchange
Highest	2.10	31 August 2017
Lowest	1.55	5 June 2017

Value of the Offers

Based on the Share Offer Price of HK\$2.10 per Offer Share and 577,396,331 outstanding Shares not held or agreed to be acquired by the Offeror and Inspur Overseas:

- (a) Assuming no outstanding Options are exercised and the Share Offer is accepted in full:
 - (i) the value of the Share Offer will be approximately HK\$1,212,532,295; and
 - (ii) the total amount to satisfy the cancellation of all outstanding Options will be approximately HK\$22,196,600.

- (b) Assuming all outstanding Options are exercised in full and the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Options):
 - (i) the value of the Share Offer will be approximately HK\$1,304,554,295; and
 - (ii) no amount will be payable by the Offeror under the Option Offer.

The maximum total consideration to be paid for the Offers is approximately HK\$1,304,554,295.

Confirmation of financial resources

Assuming all outstanding Options will be exercised, the financial resources required from the Offeror to satisfy the consideration for the Offers is HK\$1,304,554,295.

The Offeror intends to finance the entire consideration payable by the Offeror under the Offers from external financing under a standby facility granted by ICBC (Asia) to the Offeror. ABCI, the financial adviser to the Offeror, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy full acceptance of the Offers.

The Offeror does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Group.

LETTER FROM ABCI

4. CONDITIONS TO THE OFFERS

The Share Offer is conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4: 00 p.m. on the first Closing Date of the Share Offer (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offeror and Inspur Overseas holding more than 50% of the voting rights of the Company;

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offeror confirms that the Offers are final and will not be increased.

The Offers will lapse if the Share Offer closes without having become unconditional.

WARNING: Shareholders, Optionholders and/or potential investors in the Company should note that the Share Offer is subject to the satisfaction of the Condition, and the Option Offer is subject to, and conditional upon, the Share Offer becoming or being declared unconditional in all respects. The Offers may or may not become unconditional. Shareholders, Optionholders and/or potential investors in the Company should therefore exercise caution when dealing in the securities of the Company (including the Shares and any options or rights in respect of them). Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

5. INFORMATION OF THE OFFEROR AND ITS CONCERT PARTIES

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and wholly-owned by Inspur Overseas. As at the Latest Practicable Date, the total shareholding held the Offeror and its Concert Parties in the Company are as follows:

	Number of Shares	Approximate shareholding %
The Offeror ⁽¹⁾	86,862,000	9.12
Inspur Overseas	288,478,000	30.28
Mr. Dong Hailong ⁽²⁾	<u>284,000</u>	<u>0.03</u>
Total	<u>375,624,000</u>	<u>39.43%</u>

Note (1): The Offeror is a wholly-owned subsidiary of Inspur Overseas and is indirectly wholly-owned subsidiary of Inspur Group.

Note (2): Mr. Dong Hailong is a director of Inspur Overseas and is also a director of Inspur Cheeloo Overseas which indirectly and wholly owns the Offeror. In addition, Mr. Dong is a director of the Company.

LETTER FROM ABCI

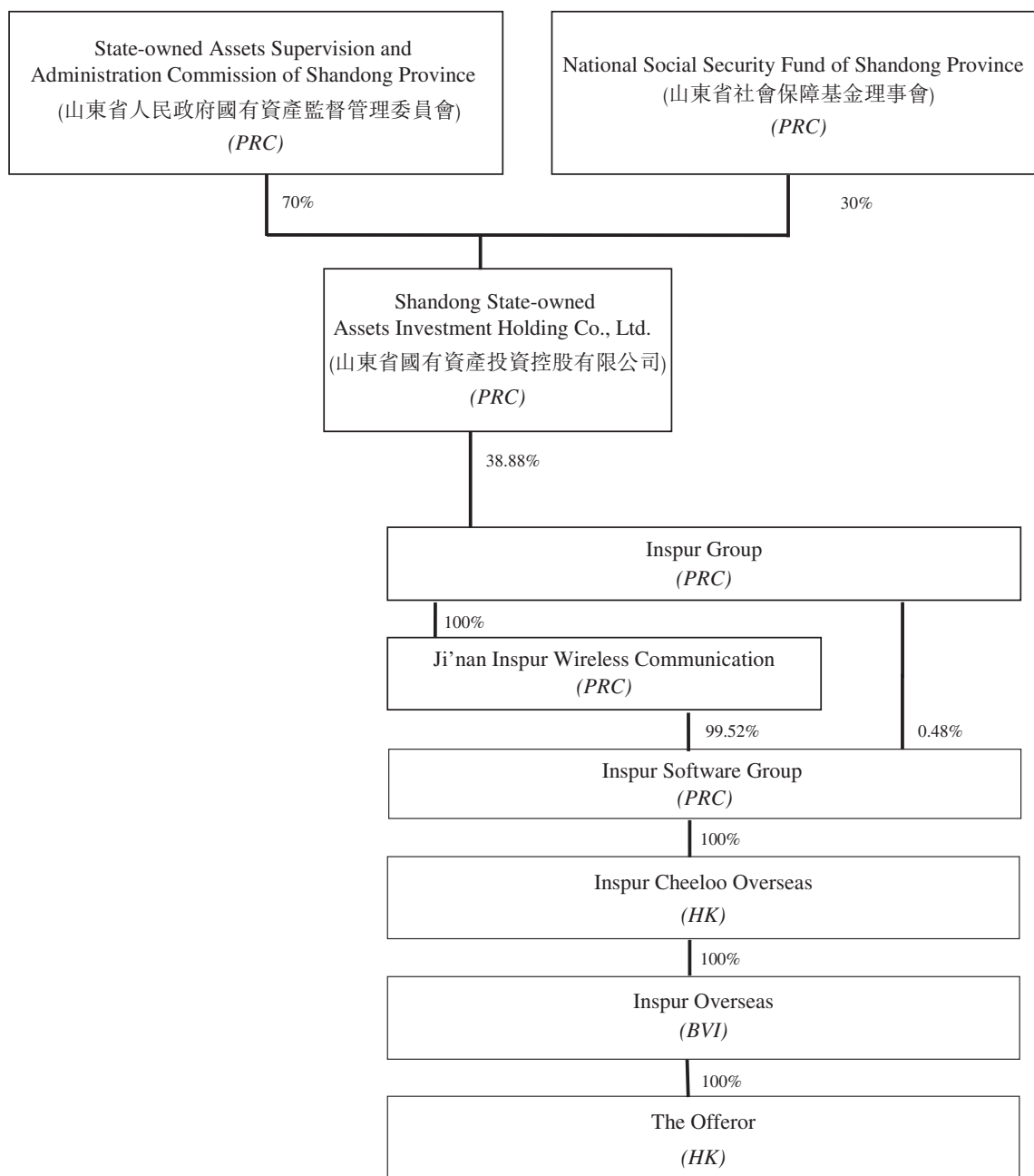
Inspur Overseas is an investment holding company incorporated in the British Virgin Islands with limited liability. Inspur Overseas is wholly-owned by Inspur Cheeloo Overseas which is an investment holding company incorporated in Hong Kong with limited liability. Inspur Cheeloo Overseas is wholly-owned by Inspur Software Group. Inspur Software Group is owned as to 99.52% by Ji'nan Inspur Wireless Communication and 0.48% by Inspur Group. Ji'nan Inspur Wireless Communication is 100% owned by Inspur Group. Therefore, Inspur Software Group is wholly-owned by Inspur Group.

Inspur Group is held as to 38.88% by Shandong State-owned Assets Investment Holding Co., Ltd. (山東省國有資產投資控股有限公司). None of its shareholders other than Shandong State-owned Assets Investment Holding Co., Ltd. holds one-third or more of Inspur Group. Shandong State-owned Assets Investment Holding Co., Ltd. is held as to 70% by the State-owned Assets Supervision and Administration Commission of Shandong Province (山東省人民政府國有資產監督管理委員會) and as to 30% by the National Social Security Fund of Shandong Province (山東省社會保障基金理事會).

Inspur Overseas is the beneficial owner of 288,478,000 Shares and is deemed to be interested in additional 86,862,000 Shares by virtue of its holding through the Offeror. As such, Inspur Overseas is deemed to be interested in a total of 375,340,000 Shares, representing approximately 39.40% of the total issued share capital of the Company as at the Latest Practicable Date. Each of Inspur Cheeloo Overseas, Inspur Software Group, Ji'nan Inspur Wireless Communication, Inspur Group, Shandong State-owned Assets Investment Holding Co., Ltd. and the State-owned Assets Supervision and Administration Commission of Shandong Province is deemed to be interested in 375,340,000 Shares, representing approximately 39.40% of the total issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM ABCI

The following chart sets out the relationship among the companies above as at the Latest Practicable Date:



Inspur Software Group is a limited liability company established in the PRC and is deemed to be interested in 375,340,000 Shares. Inspur Software Group Co., Ltd. and its subsidiaries are principally engaged in software development and supply of integrated services, including system integration, cloud media platform, integrated IT solutions for government and large-scale corporations.

LETTER FROM ABCI

6. THE OFFEROR'S REASONS FOR THE OFFER

Inspur Software Group wishes to increase its shareholding in the Company through the Offer in order to strengthen its controlling stake in the Company. Inspur Software Group believes that if the Offers become unconditional, it will allow Inspur Software Group to more securely maintain its status as a controlling shareholder of the Company and ensure that Inspur Software Group can continue to consolidate the Company's financial statements in the foreseeable future. The Offeror and Inspur Software Group are of the view that the price of the Shares has not been satisfactory since mid-2015. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 716,587 Shares per day, representing only approximately 0.08% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to divest scalable on-market disposals without adversely affecting the price of the Shares.

The Offeror further believes that the Share Offer provides an opportunity for the Inspur Offer Shareholders to monetise some or all of their investments in the Company in return for immediate cash. The Share Offer Price represents (i) a 20.0% premium over closing price of HK\$1.75 per Share as quoted on the Stock Exchange on 28 July 2017, being the Last Trading Date and (ii) a 24.4% premium over the average closing price of approximately HK\$1.69 per Share for the last five consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date. The Offeror believes that the Share Offer represents an attractive premium to the prices at which the market has valued the Company.

7. INTENTIONS OF THE OFFEROR REGARDING THE GROUP

The Offeror does not intend to avail itself of any powers of compulsory acquisition and has no intention to either cause the Group to change its existing businesses or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business following the close of the Offers.

After the close of the Offers, the Offeror will review the businesses of the Group, including, among others, the Group's relationships with its distributors and suppliers, portfolio of products, assets, corporate and organizational structure, capitalization, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organize and optimize the businesses and operations of the Group. The Offeror intend that the Group will continue to operate its business in its substantially current state and the employment of the employees of the Group will be continued. The Offeror does not currently intend to introduce any changes to the Board.

However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's businesses and operations.

8. MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing status of the Company on the Stock Exchange. If the Offeror acquires the requisite percentage of the Offer Shares to enable it to compulsorily acquire all the issued Shares, the Offeror does not intend to exercise its right to compulsorily acquire the remaining Shares.

LETTER FROM ABCI

The Stock Exchange has stated that if, at the close of the offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued shares, are held by the public, or if the Stock Exchange believes that:—

- a false market exists or may exist in the trading of the shares; or
- that there are insufficient shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror and directors of the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Company's shares.

9. GENERAL MATTERS RELATING TO THE OFFERS

Hong Kong stamp duty and taxation

Please see Appendix I to this Composite Document for information regarding Hong Kong stamp duty and taxation.

Overseas Inspur Offer Shareholders and Optionholders

If you are an overseas Shareholder or Optionholder, please see the important information in the section headed "Overseas Inspur Offer Shareholders and Optionholders" in Appendix I to this Composite Document.

Forms of Acceptance and Settlement

Information regarding the acceptance of the Offers and settlement of consideration is set out in Appendix I to this Composite Document.

10. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Board on pages 18 to 25, the letter from the Independent Board Committee on pages 26 to 27 and the letter from the Independent Financial Adviser on pages 28 to 44 of this Composite Document in relation to their respective recommendations and advice with respect to the Offers.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,
For and on behalf of
ABCI Capital Limited
Leo Chan **Marco Wong**
Managing Director *Director*



INSPUR INTERNATIONAL LIMITED

浪潮國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

Executive Directors:

Mr. Wang Xingshan

(Chairman and Chief Executive Officer)

Mr. Jin Xiaozhou, Joe

Mr. Lee Eric Kong

Non-Executive Directors

Mr. Dong Hailong

Mr. Samuel Y. Shen

Independent Non-Executive Directors:

Mr. Wong Lit Chor, Alexis

Ms. Zhang Ruijun

Mr. Ding Xiangqian

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business in Hong Kong:

Room B&C, 30/F, Tower A

Billion Center

1 Wang Kwong Road

Kowloon Bay

Kowloon

Hong Kong

7 September 2017

To the Independent Shareholders and Optionholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
ABCI CAPITAL LIMITED ON BEHALF OF INSPUR CLOUD COMPUTING
INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES OF
INSPUR INTERNATIONAL LIMITED
(OTHER THAN THOSE SHARES OWNED BY INSPUR CLOUD
COMPUTING INVESTMENT LIMITED AND
INSPUR OVERSEAS INVESTMENT LIMITED) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
INSPUR INTERNATIONAL LIMITED**

INTRODUCTION

It was announced on 3 August 2017 in the Announcement that ABCI will, on behalf of the Offeror, make voluntary conditional cash offers (i) to acquire all of the outstanding Shares (other than those Shares owned or agreed to be acquired by the Offeror and Inspur Overseas); and (ii) to cancel

LETTER FROM THE BOARD

all the outstanding Options, subject to the satisfaction of the Pre-Condition. The Offers are subject to the fulfilment or waiver, as applicable, of a number of Conditions as set out in the Announcement. On 8 August 2017, the Offeror and the Company jointly announced that the Pre-Condition had been satisfied.

On 22 August 2017 the Offeror and the Company jointly announced that the Offeror acquired a total of 18,600,000 Shares on 18 August 2017, 21 August 2017 and 22 August 2017, representing approximately 2.06% of the entire share capital of the Company as at 22 August 2017, being the date of the joint announcement. Therefore, the Offeror was required to make mandatory conditional cash offers (i) to acquire all of the outstanding Shares held by Inspur Offer Shareholders; and (ii) to cancel all the outstanding Options.

For the Share Offer, it will be made by ABCI on behalf of the Offeror at a consideration of HK\$2.10 per Offer Share, representing a premium of 20.0% over the closing price of HK\$1.75 per Share as quoted on the Stock Exchange on 28 July 2017, being the Last Trading Date. The Share Offer will be extended to all Shareholders (other than the Offeror and Inspur Overseas) in accordance with the Takeovers Code.

For the Option Offer, ABCI will make, on behalf of the Offeror, appropriate offers to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options in exchange for cash on the following basis:-

- (a) In respect of Options with an exercise price of HK\$1.34:

For cancellation of each such OptionHK\$0.76 in cash

- (b) In respect of Options with an exercise price of HK\$1.63:

For cancellation of each such OptionHK\$0.47 in cash

- (c) In respect of Options with an exercise price of HK\$1.71:

For cancellation of each such OptionHK\$0.39 in cash

In respect of the Options with exercise price of HK\$3.41, as the exercise price is above the Share Offer Price, ABCI will, on behalf of the Offeror, make a nominal cash offer for the cancellation of such Options on the following terms:

- (d) In respect of Options with an exercise price of HK\$3.41:

For cancellation of each such OptionHK\$0.01 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be cancelled.

LETTER FROM THE BOARD

The Independent Board Committee comprises of Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun, Mr. Ding Xiangqian (representing all the independent non-executive Directors) and Mr. Samuel Y. Shen (non-executive Director) has been established by the Board to make a recommendation to the Independent Shareholders as to whether the Share Offer is, or is not, fair and reasonable and as to its acceptance and to the Optionholders as to its views on the Option Offer. Mr. Dong Hailong (non-executive Director) is not a member of the Independent Board Committee as he is a director of each of Inspur Cheeloo Overseas and Inspur Overseas, each of which is a Concert Party of the Offeror.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Group, the Offeror and its Concert Parties and the Share Offer as well as setting out the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Share Offer and the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Share Offer.

THE OFFERS

The Offers comprise the Share Offer and the Option Offer as mentioned above. The Offeror confirms that the Offers are final and will not be increased.

Highest and lowest Share prices

The highest and lowest closing Share prices during the Relevant Period Trading Date and including the Last Trading Date:

	Closing Share price (HK\$)	Date quoted on the Stock Exchange
Highest	2.10	31 August 2017
Lowest	1.55	5 June 2017

Value of the Offers

Based on the Share Offer Price of HK\$2.10 per Offer Share and 577,396,331 outstanding Shares not held or agreed to be acquired by the Offeror and Inspur Overseas:

- (a) Assuming no outstanding Options are exercised and the Share Offer is accepted in full:
 - (i) the value of the Share Offer will be approximately HK\$1,212,532,295; and
 - (ii) the total amount to satisfy the cancellation of all outstanding Options will be approximately HK\$22,196,600.

LETTER FROM THE BOARD

- (b) Assuming all outstanding Options are exercised in full and the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Options):
- (i) the value of the Share Offer will be approximately HK\$1,304,554,295;
 - (ii) no amount will be payable by the Offeror under the Option Offer.

Financial resources available to the Offeror

Assuming all outstanding Options will be exercised, the financial resources required from the Offeror to satisfy the consideration for the Offers is HK\$1,304,554,295. The Offeror intends to finance the entire consideration payable by the Offeror under the Offers from external financing under a standby facility granted by ICBC (Asia) to the Offeror. ABCI, the financial adviser to the Offeror is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy full acceptance of the Offers.

CONDITIONS TO THE OFFERS

The Share Offer is conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4: 00 p.m. on the first Closing Date of the Share Offer (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offeror and Inspur Overseas holding more than 50% of the voting rights of the Company.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 596).

The Group is principally engaged in the provision for software development and provision of software outsourcing services. Recently, the Group also conformed to the trend of “Internet +” and fully implemented the “data-centric” strategy to establish a wisdom enterprise of “interconnection, refinement and intelligence”. By use of technologies as cloud computing, big data, Internet of Things and mobile internet, etc., the Group has accelerated the transition from software and service to cloud technology with inheritance and innovation, striving to become a leading manufacturer of enterprises’ management software and cloud services in China.

LETTER FROM THE BOARD

Set out below is a summary of certain financial information of the Group (i) for the six months ended 30 June 2017 as extracted from the half-year results announcement for the six months ended 30 June 2017 and (ii) for the financial years ended 31 December 2015 and 2016 as extracted from the annual report of the Company for the financial year ended 31 December 2016.

	For the	For the financial year ended	
	six months	31 December	
	ended 30 June	2016	2015
	2017	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	550,669	1,163,170	971,659
(Loss)/profit before taxation	(11,864)	87,737	(4,609)
(Loss)/profit after taxation	(12,874)	60,574	5,367
(Loss)/profit attributable to owners of the Company	(12,635)	59,893	6,994

The audited consolidated net asset value of the Company as at 31 December 2016 was approximately HK\$1,734,591,000. The audited consolidated net asset value per Share as at 31 December 2016 was approximately HK\$1.92.

Further details of the financial information of the Group are set out in Appendix II to this Composite Document.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there are 952,736,331 Shares in issue, of which the Offeror and its Concert Parties hold 375,624,000 Shares representing approximately 39.43% of the issued share capital of the Company.

The shareholding structure of the Company, representing the outstanding Shares in issue, as at the Latest Practicable Date is as follows:

Name of Shareholder	As at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximate shareholding %</i>
The Offeror and its Concert Parties		
— The Offeror ⁽¹⁾	86,862,000	9.12
— Inspur Overseas	288,478,000	30.28
— Mr. DONG Hailong ⁽²⁾	284,000	0.03
Other Shareholders	<u>577,112,331</u>	<u>60.57</u>
Total	<u>952,736,331</u>	<u>100.00</u>

LETTER FROM THE BOARD

Note (1): The Offeror is a wholly-owned subsidiary of Inspur Overseas and is indirectly wholly-owned subsidiary of Inspur Group.

Note (2): Mr. DONG Hailong is a director of Inspur Overseas and is also a director of Inspur Cheeloo Overseas which indirectly and wholly owns the Offeror. In addition, Mr. DONG is a director of the Company.

As at the date of the Announcement, the details of the outstanding Options granted pursuant to the Share Option Scheme are set out in the table below:

Date of Grant	Period during which the outstanding Option are exercisable	Exercise price per Option <i>HK\$</i>	Number of new Shares to be issued upon exercise of Optionholders	Offer price per Option <i>HK\$</i>
10 December 2010	10 December 2010 to 9 December 2020	3.41	2,008,000	0.01
10 December 2010	10 December 2011 to 9 December 2020	3.41	2,008,000	0.01
10 December 2010	10 December 2012 to 9 December 2020	3.41	1,004,000	0.01
16 July 2015	16 July 2015 to 15 July 2025	1.71	2,720,000	0.39
16 July 2015	16 July 2016 to 15 July 2025	1.71	2,720,000	0.39
16 July 2015	16 July 2017 to 15 July 2025	1.71	1,360,000	0.39
13 May 2016	13 May 2016 to 12 May 2026	1.34	1,120,000	0.76
13 May 2016	13 May 2017 to 12 May 2026	1.34	2,240,000	0.76
13 May 2016	13 May 2018 to 12 May 2026	1.34	12,000,000	0.76
4 May 2017	4 May 2017 to 3 May 2027	1.63	640,000	0.47
4 May 2017	4 May 2018 to 3 May 2027	1.63	8,000,000	0.47
4 May 2017	4 May 2019 to 3 May 2027	1.63	8,000,000	0.47
Total			<u>43,820,000</u>	

The details of the Options held by the Directors are set out in Appendix IV of this Composite Documents.

LETTER FROM THE BOARD

INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES AND INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the sections headed “Information on the Offeror and its Concert Parties’ and “Intentions of the Offeror regarding the Group” in the “Letter from ABCI” of this Composite Document. The Board has noted the intentions of the Offeror Group in respect of the Group and its employees, as disclosed under the section headed “Intentions of the Offeror regarding the Group” in the “Letter from ABCI” of this Composite Document.

MAINTAINING THE LISTING STATUS OF THE COMPANY AND COMPULSORY ACQUISITION

The Stock Exchange has stated that if, at the close of the offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued shares, are held by the public, or if the Stock Exchange believes that:—

- a false market exists or may exist in the trading of the shares; or
- that there are insufficient shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror and directors of the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Company’s shares.

RECOMMENDATIONS

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on pages 26 to 27 of this Composite Document which contains its recommendation to the Independent Shareholders in respect of the Share Offer and its recommendation to the Optionholders in respect of the Option Offer, and the letter of advice from the Independent Financial Adviser set out on pages 28 to 44 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offers so far as the Independent Shareholders and the Optionholders are concerned and as to acceptance thereof the principal factors considered by it in arriving at this recommendation. You are also advised to read this Composite Document and the Forms of Acceptance in respect of the acceptance and settlement procedures of the Offers.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

In considering what action to take in connection with the Offers, the Independent Shareholders and the Optionholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read this Composite Document together with the Forms of Acceptance for details of the Offers and the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

By Order of the board of directors of
Inspur International Limited
Wang Xingshan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of the Independent Board Committee to the Independent Shareholders in respect of the Offers for inclusion in this Composite Document.



INSPUR INTERNATIONAL LIMITED

浪潮國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

7 September 2017

To Independent Shareholders and Optionholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
ABCI CAPITAL LIMITED ON BEHALF OF INSPUR CLOUD COMPUTING
INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES OF
INSPUR INTERNATIONAL LIMITED
(OTHER THAN THOSE SHARES OWNED BY INSPUR CLOUD
COMPUTING INVESTMENT LIMITED AND
INSPUR OVERSEAS INVESTMENT LIMITED) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF
INSPUR INTERNATIONAL LIMITED**

INTRODUCTION

We refer to the Composite Document dated 7 September 2017 jointly issued by the Company and the Offeror, of which this letter forms part. Unless specified otherwise, capitalized terms used herein shall have the same meanings as those defined in the Composite Document.

We have been appointed to form the Independent Board Committee to consider the terms of the Share Offer and Option Offer (“**Offers**”) and to advise you as to whether, in our opinion, the terms of the Share Offer and the Option Offer are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned respectively and as to the acceptance of the Offers. Amasse Capital Limited has been appointed as the Independent Financial Adviser to advise us in this respect. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the “Letter from Amasse” contained in this Composite Document. We also wish to draw your attention to the “Letter from ABCI”, the “Letter from the Board” and the additional information set out in the appendices to this Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATIONS

Taking into account the terms of the Share Offer and Option Offer and the advice from the Independent Financial Adviser in particular the factors, reasons and recommendations as set out in the “Letter from Amasse” contained in this Composite Document, we consider that the terms of the Share Offer and Option Offer to be fair and reasonable so far as the Independent Shareholders and Optionholders are concerned respectively. Accordingly, we recommend the Independent Shareholders and the Optionholders to accept the Share Offer and Option Offer respectively. Notwithstanding our recommendation, the Independent Shareholders and Optionholders should read full text of the “Letter from Amasse” contained in this Composite Document and consider carefully the terms of the Share Offer and Option Offer respectively and then decide whether to accept or not to accept the Share Offer and Option Offer respectively.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Inspur International Limited

Mr. Samuel Y. Shen
Non-executive Director

Mr. Wong Lit Chor, Alexis

Ms. Zhang Ruijun
Independent non-executive Directors

Mr. Ding Xiangqian

LETTER FROM AMASSE

Set out below is the text of a letter received from Amasse Capital Limited, the Independent Financial Adviser to the Independent Board Committee in respect of the Offers for the purpose of inclusion in this Composite Document.

AMASSE CAPITAL 寶 積 資 本

7 September 2017

To the Independent Board Committee of Inspur International Limited

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS
BY ABCI CAPITAL LIMITED ON BEHALF OF INSPUR CLOUD
COMPUTING INVESTMENT LIMITED FOR ALL THE
OUTSTANDING SHARES OF INSPUR INTERNATIONAL LIMITED
(OTHER THAN THOSE SHARES OWNED BY INSPUR CLOUD
COMPUTING INVESTMENT LIMITED AND INSPUR OVERSEAS
INVESTMENT LIMITED) AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING
OPTIONS OF INSPUR INTERNATIONAL LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers, details of which are set out in the Composite Document dated 7 September 2017 jointly issued by the Offeror and the Company to its Independent Shareholders and Optionholders, of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

On 3 August 2017, the Offeror and the Company jointly announced that ABCI, on behalf of the Offeror, intended to make pre-conditional voluntary conditional cash offers (i) to acquire all of the outstanding Shares held by Inspur Offer Shareholders; and (ii) to cancel all the outstanding Options, subject to the satisfaction of the Pre-Condition (the “**Joint Announcement**”).

On 8 August 2017, the Offeror and the Company jointly announced that the Pre-Condition has been satisfied.

LETTER FROM AMASSE

On 22 August 2017 the Offeror and the Company jointly announced that the Offeror acquired a total of 18,600,000 Shares on 18 August 2017, 21 August 2017 and 22 August 2017, representing approximately 2.06% of the entire share capital of the Company as at 22 August 2017, being the date of the joint announcement. Therefore, the Offeror was required to make mandatory conditional cash offers (i) to acquire all of the outstanding Shares held by Inspur Offer Shareholders; and (ii) to cancel all the outstanding Options.

The Independent Board Committee which comprises Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun, Mr. Ding Xiangqian (representing all the independent non-executive Directors) and Mr. Samuel Y. Shen (non-executive Director) has been established by the Board to make a recommendation to the Independent Shareholders as to whether the Share Offer is, or is not, fair and reasonable and as to its acceptance and to the Optionholders as to its views on the Option Offer. Mr. Dong Hailong (non-executive Director) is not a member of the Independent Board Committee as he is a director of each of Inspur Cheeloo Overseas and Inspur Overseas, each of which is a Concert Party of the Offeror.

We, Amasse Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offers pursuant to Rule 2.1 of the Code. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the Offers, we do not and did not have any relationship (business, financial or otherwise) amounted to a significant connection (as referred to in Rule 2.6 of the Code) with the Company or the Offeror within the past two years for us of a kind necessary likely to create, or to create the perception of, a conflict of interest for us or which is reasonably likely to affect the objectivity of our advice.

BASIS OF OUR OPINION

In formulating our opinions and recommendation, we have reviewed, among others, the Joint Announcement, the joint announcements of the Company and the Offeror dated 8 August and 22 August 2017, the annual reports of the Company for the years ended 31 December 2015 and 2016 and the interim report of the Company for the six months ended 30 June 2017. We have relied on the accuracy of the information and facts contained or referred to in the Composite Document and provided to us by the management of the Company. We have assumed that all information and representations contained or referred to in the Composite Document were true and accurate at the time when they were made and continue to be true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the date of despatch of the Composite Document. Should there be any subsequent material change in such information during the Offer Period, the Company should inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Code. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Offeror in the Composite Document were reasonably made after due enquiries and considerations. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the

LETTER FROM AMASSE

information provided and representations made to us untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Composite Document and to provide a reasonable basis for our opinion and recommendation. The Directors have declared in a responsibility statement set out in the Appendix IV to the Composite Document that they jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Offeror and its Concert Parties and the terms and conditions of the Offers). We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Group and/or the Offeror. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there is no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offers. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

In formulating our opinions, we have not considered the tax implication on the Independent Shareholders and Optionholders arising from acceptances or non-acceptances of the Offers as these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Offers. In particular, the Independent Shareholders and the Optionholders who are residents outside Hong Kong or subject to overseas tax or Hong Kong taxation on securities dealings should consider their own tax position, and if in any doubt, should consult their own professional advisers.

In formulating our opinions, our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of the Latest Practicable Date. The Independent Shareholders and Optionholders will be informed should there be any material changes to the information contained or referred to herein and our opinion as soon as possible after the Latest Practicable Date and throughout the Offer Period. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinions expressed herein which may come or be brought to our attention after the end of the period for the acceptance of the Offers.

This letter is issued for the Independent Board Committee solely in respect of the Offers and, except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM AMASSE

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinions, we have taken into consideration the following principal factors and reasons:

1. The Offers

The Share Offer

Consideration of the Share Offer

For each Offer Share HK\$2.10 in cash

The Share Offer is extended to all Inspur Offer Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired with all rights attached thereto as at the date of this Offer or which subsequently become attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of this Offer, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

The Option Offer

For all outstanding Options with an exercise price of HK\$1.34, HK\$1.63 and HK\$1.71 respectively, which is “in the money” (“**In Money Options**”) in exchange for cash on the following basis.

- (a) In respect of Options with an exercise price of HK\$1.34:

For cancellation of each such Option HK\$0.76 in cash

- (b) In respect of Options with an exercise price of HK\$1.63:

For cancellation of each such Option HK\$0.47 in cash

- (c) In respect of Options with an exercise price of HK\$1.71:

For cancellation of each such Option HK\$0.39 in cash

In respect of the Options with exercise price of HK\$3.41, as the exercise price is above the Share Offer Price, ABCI, on behalf of the Offeror, makes a nominal cash offer for the cancellation of such Options on the following terms:

- (d) In respect of Options with an exercise price of HK\$3.41:

For cancellation of each such Option HK\$0.01 in cash

LETTER FROM AMASSE

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be cancelled.

If any Option is currently exercisable and is exercised in accordance with the terms of the Share Option Scheme prior to the Closing Date, any Shares issued as a result of the exercise of those Options prior to the Closing Date will be subject to and eligible to participate in the Share Offer.

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional in all respects, the Optionholders shall be entitled to exercise the Options (to the extent not already exercised) in its full extent (whether or not the Options are currently exercisable) or to the extent specified in the Optionholder's notice to the Company in exercise of the Option at any time before the final Closing Date. The Option Offer will remain open for at least 14 days after the date on which the Share Offer becomes or is declared unconditional in all respects. The Options not exercised on or before the final Closing Date shall lapse.

Conditions to the Offers

The Share Offer is conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4: 00 p.m. on the first Closing Date of the Share Offer (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offeror and Inspur Overseas holding more than 50% of the voting rights of the Company.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offeror confirms that the Offers are final and will not be increased.

The Offers will lapse if the Share Offer closes without having become unconditional.

2. Information and financial performance of the Group

The Group is principally engaged in software development and providing software outsourcing services.

The audited consolidated net asset value of the Company as at 31 December 2016 was approximately HK\$1,734,591,000. The audited consolidated net asset value per Share as at 31 December 2016 was approximately HK\$1.92.

As at the Latest Practicable Date, the continuing operations of the Group comprise of (i) Software development and solution segment; and (ii) Software outsourcing segment. With reference to the 2015 Annual Report (as defined below), two types of operations labelled as (1) development of self-help banking facilities and related software and provision of related services and (2) development of telecommunication system network software and provision of system integration service that were included in category (i) above were discontinued in September 2015.

LETTER FROM AMASSE

Set out below is a summary of the consolidated financial information on the Group's continuing operations for each of the three years ended 31 December 2014, 2015 and 2016 and the six months period ended 30 June 2016 and 2017 as extracted from the annual report of the Company for the year ended 31 December 2015 (the "2015 Annual Report") and for the year ended 31 December 2016 (the "2016 Annual Report") and the interim report of the Company for the six months period ended 30 June 2017 (the "2017 Interim Report").

	For the year ended			For the six months	
	31 December			ended 30 June	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	891,082	971,659	1,163,170	521,703	550,669
Gross profit	280,225	292,229	342,161	152,841	154,053
Net profit/(loss) before taxation	(67,901)	(4,609)	87,737	(4,190)	(11,864)
Net profit/(loss) after taxation	(69,195)	(17,529)	60,574	(4,988)	(12,874)
			As at		As at
			31 December		30 June
			2016		2017
			<i>HK\$'000</i>		<i>HK\$'000</i>
			<i>(audited)</i>		<i>(unaudited)</i>
Total assets			2,658,157		2,678,114
Total liabilities			923,566		930,565
Net assets attributable to owners of the Company			1,734,331		1,746,736

Financial performance for the six months period ended 30 June 2017

For the six months ended 30 June 2017, the Group recorded a revenue of approximately HK\$550.7 million, representing an increase of approximately 5.6% as compared to that of approximately HK\$521.7 million for the six months ended 30 June 2016. With reference to the 2017 Interim Report, the revenue of software development and solution was approximately HK\$411.8 million for the six months period ended 30 June 2017, representing an increase of 14.5% as compared to that of approximately HK\$359.6 million for the six months ended 30 June 2016. The growth in revenue of software development and solution mainly comes from intelligent depot programs and solutions and software sale to large-scale enterprise management. The software outsourcing business amounted to approximately HK\$ 138.9 million for the six months ended 30 June 2017, representing a decrease of 14.3% as compared to that of approximately HK\$162.1 million for the six months ended 30 June 2016. The decline in revenue of this segment was because of the outsourcing orders from one major customer of the Group reducing substantially and new customers' orders failing to mark up for the losing.

LETTER FROM AMASSE

For the six months ended 30 June 2017, gross profit of the Group was approximately HK\$154.1 million, representing an increase of 0.8% as compared to that of approximately HK\$152.8 million for the six months ended 30 June 2016, and gross profit margin was 28.0%, slightly decrease 1.3% when compared to that of 29.3% for the six months ended 30 June 2016.

The Company's net loss after taxation increased by approximately 158.0% from approximately HK\$5.0 million for the six months ended 30 June 2016 to approximately HK\$12.9 million for the six months ended 30 June 2017, mainly due to (i) the selling and distribution cost for the six months ended 30 June 2017 increased approximately HK\$7.0 million when compared to that for the six months ended 30 June 2016, because of the Group's aggressive market expansion and sales channel promotion; and (ii) administration expenses and research and development costs increased approximately HK\$9.3 million for the six months ended 30 June 2017 when compared to that for the six months ended 30 June 2016.

Financial performance for the year ended 31 December 2016

For the year ended 31 December 2016, the Group recorded revenue of approximately HK\$1,163.1 million, representing an increase of 19.7% as compared to that of approximately HK\$ 971.7 million for the year ended 31 December 2015. The increase in revenue was mainly due to the 31.9% increase in revenue from the sales of self-developed software which was approximately HK\$627.1 million for the year ended 31 December 2016, representing 53.9% of the total revenue of the Group for the year ended 31 December 2016, when compared to that of approximately 475.6 million for the year ended 31 December 2015.

The gross profit of the Group was approximately HK\$342.2 million for the year ended 31 December 2016, representing an increase of 17.1% as compared to that of approximately HK\$292.2 million for the year ended 31 December 2015, and gross profit margin was 29.4%, slightly decrease 0.7% when compared to that of 30.1% for the year ended 31 December 2015.

The Company's net profit after taxation was approximately HK\$60.6 million for the year ended 31 December 2016, representing a significant improvement as compared to net loss after taxation of approximately HK\$4.6 million for the year ended 31 December 2015 due to (i) main business developing well and achieving profit; and (ii) rental income from investment properties and the changes from fair valuation of investment property recorded positive growth.

Financial performance for the year ended 31 December 2015

For the year ended 31 December 2015, the Group recorded revenue of approximately HK\$971.7 million representing an increase of 9.0% as compared to that of approximately HK\$ 891.1 million for the year ended 31 December 2014. The increase in revenue was mainly due to the revenue of sales of IT peripherals and purchased software of approximately HK\$219.5 million, representing an increase of 17.5% as compared to that of approximately HK\$ 186.9 million for the year ended 31 December 2014.

The gross profit of the Group was approximately HK\$292.2 million for the year ended 31 December 2015, representing an increase of 4.3% as compared to that of approximately HK\$280.2 million for the year ended 31 December 2014, and gross profit margin was 30.1%, slightly decrease 1.4% when compared to that of 31.5% for the year ended 31 December 2014.

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The Company's net loss after taxation was approximately HK\$4.7 million for the year ended 31 December 2015, representing a significant improvement as compared to net loss after taxation of approximately HK\$69.2 million for the year ended 31 December 2014, mainly due to the gain on disposal of discontinued operations in the amount of approximately HK\$84.9 million in 2015.

Financial position as at 30 June 2017

The total assets of the Group was approximately HK\$ 2,678.1 million as at 30 June 2017, representing an increase of 0.7% as compared to that of approximately HK\$2,658.2 million as at 31 December 2016.

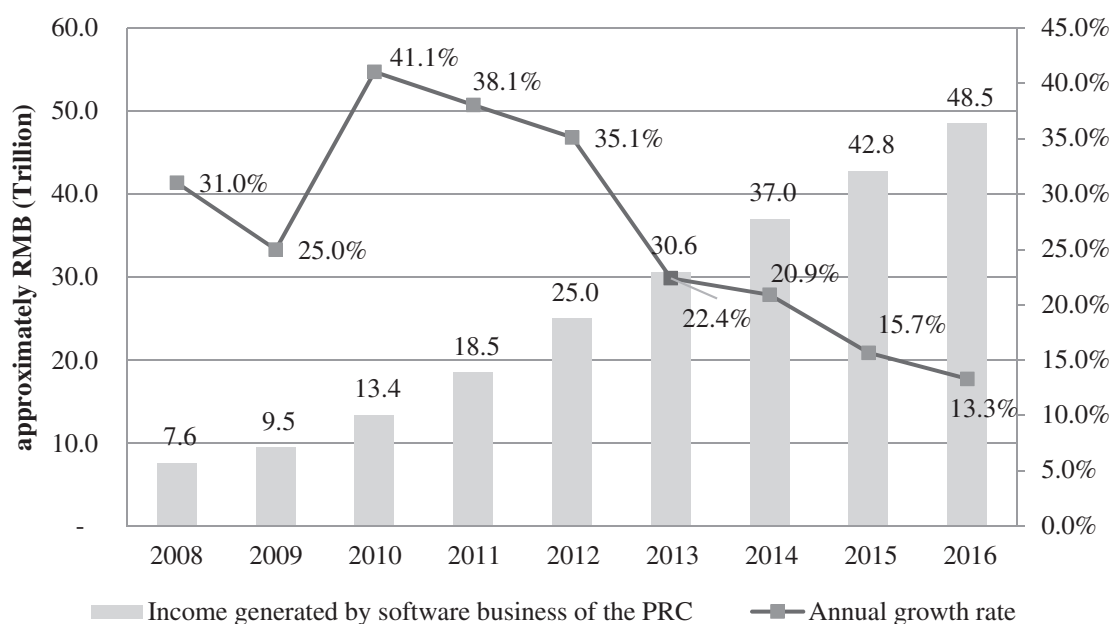
The total liabilities of the Group was approximately HK\$ 930.6 million as at 30 June 2017, representing an increase of 0.8% as compared to that of approximately HK\$923.6 million as at 31 December 2016.

As at 30 June 2017, the net asset attributable to owners of the Company increased approximately 0.7% from approximately HK\$1,734.3 million as at 31 December 2016 to approximately HK\$1,746.7 million.

3. Future Plan and Prospects

As stated in the 2017 Interim Report of the Company, in the second half of the 2017, the Company will continue to implement the “data-centric” strategy. By focusing on core industry and core products, it will implement aggressive market expansion strategies to strengthen recruitment of distribution partners and direct sales staffs, further enlarge its sales teams in the key areas. The Company will increase inputs in research and development and introduction of talents.

Moreover, according to the statistics provided by the Ministry of Industry and Information Technology of the People's Republic of China, the total income generated by the software business of the PRC from 2008 to 2016 is shown in the chart below.



LETTER FROM AMASSE

We noted from the chart above that, from 2008 to 2010, the total income generated by the software business of the PRC was in an upward trend with an average annual growth rate of more than 30% per year. But from 2011 to 2016, the annual growth rate was in a downward trend and slowing down and the annual growth rate reached a historical low at 13.3% in 2016. Therefore, we are of the view that the software industry of the PRC is started to be saturated and the prospect of the software industry in the PRC will be uncertain.

4. Information on the Offeror

To provide Independent Shareholders and the Optionholders with basic information on the background of the Offeror, set out below is the key information on the Offeror as extracted from the “Letter from ABCI” contained in the Composite Document:

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and wholly-owned by Inspur Overseas. As at the Latest Practicable Date, the Offeror and its Concert Parties held an aggregate of 375,624,000 Shares, representing approximately 39.43% of the total issued share capital of the Company.

Inspur Overseas is an investment holding company incorporated in the British Virgin Islands with limited liability. Inspur Overseas is wholly-owned by Inspur Cheeloo Overseas which is an investment holding company incorporated in Hong Kong with limited liability. Inspur Cheeloo Overseas is wholly-owned by Inspur Software Group. Inspur Software Group is owned as to 99.52% by Ji’nan Inspur Wireless Communication and 0.48% by Inspur Group. Ji’nan Inspur Wireless Communication is 100% owned by Inspur Group. Therefore, Inspur Software Group is wholly-owned by Inspur Group.

Inspur Group is held as to 38.88% by Shandong State-owned Assets Investment Holding Co., Ltd. (山東省國有資產投資控股有限公司). None of its shareholders other than Shandong State-owned Assets Investment Holding Co., Ltd. holds one-third or more of Inspur Group. Shandong State-owned Assets Investment Holding Co., Ltd. is held as to 70% by the State-owned Assets Supervision and Administration Commission of Shandong Province (山東省人民政府國有資產監督管理委員會) and as to 30% by the National Social Security Fund of Shandong Province (山東省社會保障基金理事會).

Inspur Overseas is the beneficial owner of 288,478,000 Shares, and is deemed to be interested in additional 86,862,000 Shares by virtue of its holding through the Offeror. As such, Inspur Overseas is deemed to be interested in a total of 375,340,000 Shares, representing approximately 39.40% of the total issued share capital of the Company as at the Latest Practicable Date. Each of Inspur Cheeloo Overseas, Inspur Software Group, Ji’nan Inspur Wireless Communication, Inspur Group, Shandong State-owned Assets Investment Holding Co., Ltd. and the State-owned Assets Supervision and Administration Commission of Shandong Province is deemed to be interested in 375,340,000 Shares, representing approximately 39.40% of the total issued share capital of the Company as at the Latest Practicable Date.

Inspur Software Group is a limited liability company established in the PRC and is deemed to be interested in 375,340,000 Shares. Inspur Software Group Co., Ltd. and its subsidiaries are principally engaged in software development and supply of integrated services, including system integration, cloud media platform, integrated IT solutions for government and large-scale corporations.

LETTER FROM AMASSE

Further details of the Offeror are set out under the section headed “5. INFORMATION OF THE OFFEROR AND ITS CONCERT PARTIES” of the “Letter from ABCI” contained in the Composite Document.

5. Intentions of the Offeror in relation to the Group

To provide the Independent Shareholders and the Optionholders with information on the intentions of the Offeror, set out below is the Offeror’s intentions in relation to the Group as extracted from the “Letter from ABCI” contained in the Composite Document:

The Offeror does not intend to avail itself of any powers of compulsory acquisition and has no intention to either cause the Group to change its existing businesses or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business following the close of the Offers.

After the close of the Offers, the Offeror will review the businesses of the Group, including among others, the Group’s relationships with its distributors and suppliers, portfolio of products, assets, corporate and organizational structure, capitalization, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organize and optimize the businesses and operations of the Group. The Offeror intends that the Group will continue to operate its business in substantially its current state and the employment of the employees of the Group will be continued. The Offeror does not currently intend to induce any changes to the Board.

However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group’s businesses and operations.

6. Maintaining the Listing Status of the Company

As set out in the “Letter from ABCI” of the Composite Document:

The Stock Exchange has stated that if, at the close of the offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued shares, are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the shares; or
- that there are insufficient shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror and directors of the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Company’s shares.

LETTER FROM AMASSE

7. The Share Offer Price

Share Offer Price comparison

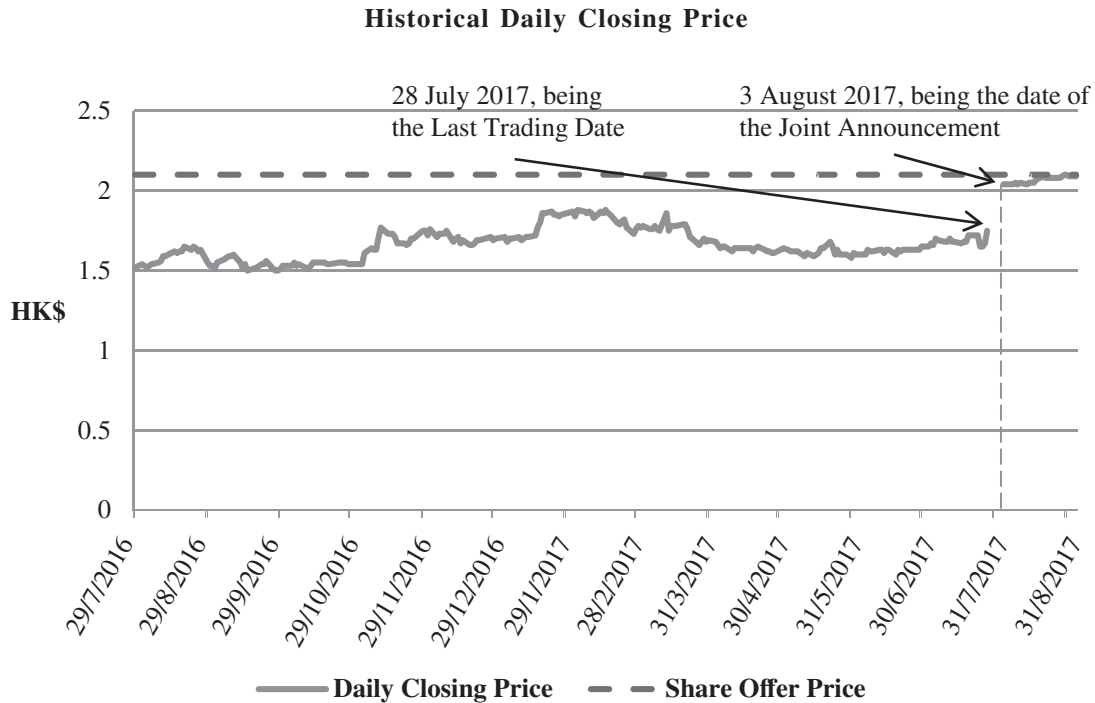
The Share Offer Price of HK\$2.10 per Offer Share represents:

- (a) a premium of 20.0% over the closing price of HK\$1.75 per Share as quoted on the Stock Exchange on 28 July 2017, being the Last Trading Date;
- (b) a premium of approximately 24.4% over the average closing price of approximately HK\$1.69 per Share for the last five consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (c) a premium of approximately 24.2% over the average closing price of approximately HK\$1.69 per Share for the last ten consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (d) a premium of approximately 26.1% over the average closing price of approximately HK\$1.67 per Share for the last 30 consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date;
- (e) a premium of approximately 9.4% over the net asset value of the Company at HK\$1.92 per Share as at 31 December 2016;
- (f) a premium of approximately 8.2% over the unaudited net asset value of the Company at HK\$1.94 per Share as at 30 June 2017; and
- (g) a premium of approximately 0.5% over the closing price of HK\$2.09 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM AMASSE

Historical price performance of the Shares

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 29 July 2016 up to the Latest Practicable Date (the “**Review Period**”), which covers an approximate one-year period prior to the Last Trading Day and the period up to the Latest Practicable Date, to illustrate the general trend and level of movement of the closing prices of the Shares.



As shown in chart above, the closing price of the Shares during the Review Period ranges from the lowest closing price of approximately HK\$1.50 per Share recorded respectively on 15, 27 and 28 September 2016 to the highest closing price of approximately HK\$2.1 per Share recorded on 30 and 31 August 2017 respectively with an average closing price per Share of approximately HK\$1.70.

The closing prices of the Shares were in general remained stable in the period before the date of the Joint Announcement. Immediately after the date of the Joint Announcement to the Latest Practicable Date (the “**Post-announcement Period**”), the daily closing price of the Shares was in an upward trend and reached its peak of HK\$2.1 per Share recorded on 30 and 31 August 2017. We have enquired into the Directors regarding the possible reasons for such increase in the closing price of the Shares in the Post-announcement Period, and as confirmed by the Directors, save as the Offers, the Directors were not aware of any happening which might have affected the closing price of the Shares.

We noted that the Share Offer Price had been higher than the daily closing prices for 266 out of 268 trading days during the Review Period. The Share Offer Price of HK\$2.10 represents a premium of approximately 40.00% over the lowest closing price per Share, equal to the highest closing price per Share and a premium of approximately 23.53% over the average closing price per Share during the Review Period, respectively.

LETTER FROM AMASSE

The Share Offer Price is at a price level higher than the daily closing prices for 266 out of 268 trading days during the Review Period.

Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month (the “Average Volume”), and the respective percentages of the Average Volume as compared to the total number of issued Shares during the Review Period are tabulated as below:

Month	Number of trading days in each month <i>Number of days</i>	Average daily trading volume (the “Average Volume”) in Shares	Percentage of the Average Volume to total number of issued Shares as at the end of each respective month (Notes 1 & 2) %
2016			
July	1	1,116,000	0.12%
August	22	775,727	0.09%
September	21	884,571	0.10%
October	19	522,105	0.06%
November	22	931,045	0.10%
December	20	380,400	0.04%
2017			
January	19	749,053	0.08%
February	20	396,750	0.04%
March	23	450,913	0.05%
April	17	771,647	0.09%
May	20	614,050	0.07%
June	22	536,660	0.06%
July	20	1,130,913	0.13%
August	19	5,739,074	0.60%
September (up to and including the Latest Practicable Date)	3	8,929,000	0.94%

Note:

- The calculation is based on the Average Volume divided by the total number of issued Shares at the end of each month during the Review Period (or at the Latest Practicable Date for September 2017).
- The total number of issued Shares remained the same during the Review Period until July 2017, being 901,536,331 Shares. The total number of issued Shares of August 2017 and at the Latest Practicable Date for September 2017 was 952,736,331.

LETTER FROM AMASSE

We noted that from the above table that the trading in the Shares had been thin during the Review Period. Save for August and September 2017, the Average Volume was below 0.20% of total number of issued Shares as at the end of each respective month (or at the Latest Practicable Date for September 2017). As the Shares are illiquid, disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares. We, therefore, consider that the Share Offer provides an exit alternative to the Independent Shareholders who would like to realise their investments in the Shares.

If any Independent Shareholders who would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire their Shares at a price higher than the Share Offer Price, those Independent Shareholders may consider not accepting the Share Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares would exceed the net amount receivable under the Share Offer.

Furthermore, those Independent Shareholders who, after reading through the 2017 Interim Report and 2016 Annual Report, the Joint Announcement, the Composite Document and our letter to the Independent Board Committee, are optimistic about the future financial performance of the Group after the Offers, may having regard to their own circumstances, consider retaining all or any part of their Shares.

Accordingly, Independent Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group as well as the intentions of the Offeror in relation to the Group in the future, and be aware of the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers given the thin Average Volume.

Comparison with other comparable companies

In assessing the fairness and reasonableness of the Share Offer Price, it is a general practice to make reference to other comparable companies. We attempt to carry out a comparable analysis with the price-to-earnings ratio (“**PER**”) which is the most commonly used benchmarks in valuing a company as the data for calculating the ratios can be obtained fairly and directly from publicly available information and reflect the value of the companies determined by the open market.

As stated in the section headed “Information and financial performance of the Group”, the Group is principally engaged in the provision for software development and provision of software outsourcing services, with the former contributing over 70% to the Group’s revenue for the year ended 31 December 2016. Therefore, we selected companies based on the following criteria: (i) principally engaged in the business in relation to provision for software development and solution services which contribute at least 70% to the total revenue; (ii) at least 50% of the revenue streams are retrieved from the PRC that are similar to the Target Group; (iii) currently

LETTER FROM AMASSE

listed on the Stock Exchange; and (iv) recorded a net profit attributable to the owners of the respective companies in their latest annual reports for comparison. To the best of our knowledge and endeavour, we found 4 Hong Kong listed companies (the “**Market Comparables**”) which meet the said criteria and they are exhaustive as far as we are aware of. Shareholders should note that the businesses, operations and prospects of the Group are not exactly the same as the Market Comparables.

Set out below are the PERs of the Market Comparables based on their respective market capitalization as at the Latest Practicable Date and their respective latest published financial information:

Stock Code	Company Name	Principal business	Market Capitalization (Approximate HK\$) (Note 1)	PER (Note 1)
268	Kingdee International Software Group Company Limited	Developing, manufacturing and selling of enterprise management software products and provision of software-related technical services in the PRC.	10,488,145,576	30.40
354	Chinasoft International Limited	Development and provision of information technology (IT) solutions services, IT outsourcing services, IT emerging services and training services.	10,545,984,774	19.93
418	Founders Holdings Limited	Software development, systems integration and distribution of information products.	533,887,412	13.27
8076	Sing Lee Software (Group) Limited	Development and sale of information and network technologies and services to the financial industry in the PRC.	133,122,220	15.82
			Average	19.86
			Minimum	13.27
			Maximum	30.40
The Share Offer				33.41

Notes:

- The PER of the Market Comparables were calculated based upon their respective market capitalization as at the Latest Practicable Date and divided by the net profit attributable to the owners of the respective companies disclosed in the respective latest published annual reports.

LETTER FROM AMASSE

2. The implied PER of the Share Offer was calculated based upon the Share Offer Price multiplied by total number of issued Shares of 952,736,331 as at the Latest Practicable Date and then divided by the net profit attributable to the owners of the Group of approximately HK\$ 59,893,000 for the year ended 31 December 2016 as extracted from the 2016 Annual Report.

As depicted from the above table, the PER of the Market Comparables ranged from approximately 13.27 times to approximately 30.40 times, with an average of approximately 19.86 times. Accordingly, the implied PER of the Share Offer of approximately 33.41 times is above the upper end of the range and the average of the PER of the Market Comparables.

Having considered that the implied PER of the Share Offer is above the upper end of the range and the average of the PER of Market Comparables, we consider that the Share Offer Price is fair and reasonable.

8. The Option Offer for each Option

On behalf of the Offeror, ABCI is making the Option Offer for the cancellation of every vested and unvested Option in accordance with Rule 13 of the Takeovers Code. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Under the Option Offer, the Offeror is offering the Optionholders the Option Offer prices in cash for cancellation of each Option that they hold.

It is common market practice to adopt a “see-through” price (representing the difference between the share offer price and any given exercise price of the convertible instrument) as the offer/cancellation price for any convertible instrument in conjunction with a general offer for ordinary shares, which complies with Rule 13 of the Takeovers Code.

For the In Money Options, the Option Offer prices represent the differences between the Share Offer Price and the exercise price of the relevant In Money Options. Depending on the exercise price of each relevant In Money Options, the Option Offer prices range from HK\$0.39 to HK\$0.76 per Option. The considerations for the cancellation of the In Money Options are the see-through price based on the Share Offer Price.

The Option Offer price for the out-of-money Options (being the Options with an exercise price of HK\$3.41) is set at a nominal amount of HK\$0.01 per Option as the exercise price of these Options are above the Share Offer Price. Therefore, we consider the basis of determining the Option Offer prices is in line with the market practice and fair and reasonable so far as the Optionholders are concerned and is in accordance with the requirements of Rule 13 of the Takeovers Code.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the software industry of the PRC is started to be saturated since the annual growth rate of total income generated by the software business of the PRC from 2011 to 2016 was slowing down and reached a historical low at 13.3% in 2016. Therefore, the prospect of the software industry in the PRC will be uncertain;

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- (ii) the Share Offer Price of HK\$2.10 is at a price level higher than the daily closing prices of the Shares for 266 out of 268 trading days as quoted on the Stock Exchange during the Review Period;
- (iii) the implied PER of the Share Offer is above the upper end of the range and the average of the PER of Comparables;
- (iv) disposal of large block of Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of thin trading volume of the Shares and the Share Offer provides an exit alternative to the Independent Shareholders who would like to realise their investments in the Shares;
- (v) the basis of determining the Option Offer prices is in line with the market practice and fair and reasonable and is in accordance with the requirements of Rule 13 of the Takeovers Code,

we consider that the terms of the Offers are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and Optionholders to accept the Offers.

We would also like to remind the Independent Board Committee to remind the Independent Shareholders and the Optionholders to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds received from the disposal of Shares exceed the net amount receivable under the Share Offer.

Those Independent Shareholders and Optionholders who decide to retain part or all of their investments in the Company should carefully monitor the intentions of the Offeror in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investments in the Company after the close of the Offers. Further terms and conditions of the Offers are set out in the “Letter from ABCI” and Appendix I to the Composite Document.

The Optionholders should closely monitor the market prices of the Shares during the Offer Period and should, having regard to their own circumstances, consider converting their Share Options and selling the conversion shares in the open market instead of accepting the Option Offer if the sale proceeds (net of transaction costs) exceed the net amount receivable under the Option Offer.

As different Independent Shareholders and the Optionholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholders and the Optionholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Amasse Capital Limited
May Tsang
Director

1. PROCEDURES FOR ACCEPTANCE OF THE OFFERS

1.1 The Share Offer

- (a) To accept the Share Offer, you should complete and sign the accompanying WHITE Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer, you must send the accompanying WHITE Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, by post or by hand, marked “**Inspur International Limited—Share Offer**” on the envelope, as soon as possible and in any event reach the Share Registrar no later than 4:00 p.m. (Hong Kong time) on Thursday 28 September 2017, being the Closing Date, or such later time and/or date as the Offeror may determine and announce in compliance with the requirements of the Code.
- (c) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer, you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the accompanying WHITE Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Share Registrar in an envelope marked “**Inspur International Limited—Share Offer**”;
 - (ii) arrange for the Share(s) to be registered in your name through the Share Registrar and send the accompanying WHITE Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Share Registrar in an envelope marked “**Inspur International Limited—Share Offer**”;

- (iii) if your Share(s) have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set out by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank) for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank) as required by them; or
- (iv) if your Share(s) have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.
- (d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, the WHITE Form of Acceptance should nevertheless be completed and delivered in an envelope marked "**Inspur International Limited— Share Offer**" to the Share Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities required in respect thereof) should be forwarded to the Share Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Share Registrar for a form of letter of indemnity which, when completed in accordance with the instructions given therein, should be returned to the Share Registrar. The Offeror shall have the absolute discretion to decide whether any Shares in respect of which the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by the Offeror.
- (e) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s) and you wish to accept the Share Offer, you should nevertheless complete and sign the WHITE Form of Acceptance and deliver it in an envelope marked "**Inspur International Limited—Share Offer**" to the Share Registrar together with the transfer receipt(s) duly signed by you. Such action will be deemed to be an irrevocable instruction and authority to ABCI and/or the Offeror and/or any of their respective agent(s) to collect from the Company or the Share Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Share Registrar and to authorise and instruct the Share Registrar to hold such share certificate(s), subject to the terms and conditions to the Share Offer, as if it/they were delivered to the Share Registrar with the WHITE Form of Acceptance.

- (f) Acceptance of the Share Offer will be treated as valid only if the duly completed and signed WHITE Form of Acceptance is received by the Share Registrar by no later than 4:00 p.m. (Hong Kong time) on Thursday 28 September 2017, being the Closing Date, or such later time and/or date as the Offeror may determine and announce in compliance with the requirements of the Code, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those share certificate(s) is/are not in your name, such other documents (for example a duly stamped transfer of the relevant Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Share(s); or
 - (ii) from a registered Inspur Offer Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Share(s) which are not taken into account under another sub-paragraph of this paragraph (f)); or
 - (iii) certified by the Share Registrar or the Stock Exchange.

If the WHITE Form of Acceptance is executed by a person other than the registered Inspur Offer Shareholder, appropriate documentary evidence of authority (for example grant of probate or certified copy of a power of attorney) to the satisfaction of the Share Registrar must be produced.

- (g) No acknowledgement of receipt for any WHITE Form(s) of Share Offer Acceptance, share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (h) If the Share Offer is invalid, withdrawn or lapses, the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post at your own risk the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Offer Shares tendered for acceptance together with the duly cancelled WHITE Form(s) of Share Offer Acceptance to the relevant Inspur Offer Shareholder(s).

1.2 The Option Offer

- (a) To accept the Option Offer, you should complete the PINK Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.
- (b) The completed PINK Form of Acceptance should be forwarded, together with the relevant letter(s) or other document(s) evidencing the grant of the relevant Options you intend to tender, stating the number of Options in respect of which you intend to accept the Option Offer, by post or by hand, marked “**Inspur International Limited—Option Offer**” on the envelope, to the company secretary of the Company at Room B&C, 30/F, Tower A, Billion

Center, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong, as soon as possible and in any event reach the company secretary of the Company no later than 4:00 p.m. (Hong Kong time) on Thursday 28 September 2017, being the Closing Date, or such later time and/ or date as the Offeror may determine and announce in compliance with the requirements of the Code.

- (c) If the relevant letter(s) or other document(s) evidencing the grant of the relevant Options is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Option Offer, the PINK Form of Acceptance should nevertheless be completed and delivered in an envelope marked “**Inspur International Limited— Option Offer**” to the company secretary of the Company together with a letter stating that you have lost one or more of your relevant letter(s) or other document(s) evidencing the grant of the relevant Options (if applicable) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the company secretary of the Company as soon as possible thereafter. If you have lost your relevant letter(s) or other document(s) evidencing the grant of the relevant Options (if applicable), you should also write to the company secretary of the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of the Company.
- (d) No stamp duty will be deducted from the amount paid or payable to the Optionholders who accept the Option Offer.
- (e) No acknowledgment of receipt of any PINK Form(s) of Acceptance and/or letter(s) or other document(s) evidencing the grant of the Options will be given.

2. ACCEPTANCE PERIOD

- (a) Unless the Offers have previously been revised or extended in compliance with the Code, to be valid, the WHITE Form of Acceptance must be received by the Share Registrar and the PINK Form of Acceptance must be received by the company secretary of the Company, in each case, in accordance with the instructions printed thereon and in this Composite Document by 4.00 p.m. on Thursday 28 September 2017, being the Closing Date.
- (b) If the Offers are extended, the announcement of such extension will state the next closing date or a statement that the Offers will remain open until further notice. In the latter case, at least 14 days’ notice in writing must be given to those Inspur Offer Shareholders and the Optionholders who have not accepted the relevant Offers before the Offers are closed. If, during the course of the Offers, the Offeror revises the terms of the Offers, all Inspur Offer Shareholders and Optionholders, whether or not they have already accepted the Share Offer and the Option Offer, respectively, will be entitled to accept the revised Share Offer and the revised Option Offer, respectively, under the revised terms. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

- (c) If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent Closing Date.
- (d) As set out in the “Letter from ABCI” in this Composite Document, the Offeror confirms that the Offers are final and will not be increased.

3. SETTLEMENT

- (a) Settlement of the consideration under the Offers will be made as soon as practicable, but in any event within seven (7) business days (as defined in the Code) following the later of (i) the Unconditional Date and (ii) the date of receipt of a complete and valid WHITE Form of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by the Share Registrar in respect of the Share Offer or of a complete and valid PINK Form of Acceptance by the company secretary of the Company in respect of the Option Offer (as the case may be), whichever is the later.
- (b) In the case of Inspur Offer Shareholders accepting the Share Offer, each cheque will be despatched by ordinary post to the address specified on the relevant Inspur Offer Shareholder’s WHITE Form of Share Offer acceptance at his/her own risk. In the case of the Optionholders accepting the Options Offer, each cheque will be despatched by ordinary post to the office of the Company in Hong Kong at Room B&C, 30/F, Tower A, Billion Center, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong for collection.
- (c) No fractions of a cent will be payable and the amount of cash consideration payable to an Inspur Offer Shareholder who accepts the Share Offer or an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.
- (d) Cheque(s) not presented for payment within six months from the date of issue of the relevant cheques will not be honoured and be of no further effect, and in such circumstances cheque holders should contact the Offeror for payment.
- (e) Settlement of the consideration to which an Inspur Offer Shareholder or Optionholder is entitled under the Offers will be implemented in full accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Inspur Offer Shareholder or Optionholder.

4. EFFECT OF ACCEPTANCE OF THE OFFERS AND RIGHT OF WITHDRAWAL

- (a) By validly accepting the Share Offer, Inspur Offer Shareholders will sell to the Offeror their tendered Shares free from all liens, charge, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of this Offer or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of this Offer.

- (b) The Share Offer is conditional upon fulfilment of the Condition set out in the “Letter from ABCI” in this Composite Document and the Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Acceptance of the Share Offer and the Option Offer tendered by Inspur Offer Shareholders and Optionholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Code, which provides that an acceptor of the Share Offer or the Option Offer shall be entitled to withdraw his/ her/its acceptance within 21 days from the first Closing Date (being Thursday, 28 September 2017) if the Share Offer has not by then become unconditional as to acceptances and up to the earlier of such time as the Share Offer becomes or is declared unconditional as to acceptances and 4:00pm on the 60th day from the date of despatch of this Composite Document (being Monday, 6 November 2017 (or the date beyond which the Offeror has stated that the Offers will not be extended, if applicable)). An acceptor of the Share Offer or the Option Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Share Registrar (in case of the Share Offer) or the company secretary of the Company (in case of the Option Offer).
- (c) Subject to the Share Offer becoming or being declared unconditional in all respects, the acceptance of the Option Offer by an Optionholder will result in the cancellation of those relevant Options, together with all rights attaching thereto.
- (d) Under Rule 19.2 of the Code, if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers set out in section 5 of this Appendix, the Executive may require that the Inspur Offer Shareholders and the Optionholders who have tendered acceptances to the relevant Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.
- (e) Upon the withdrawal of acceptance by an Inspur Offer Shareholder or an Optionholder, the Offeror shall (or shall procure), as soon as possible but in any event within 10 days thereof, return by ordinary post, in the case of an Inspur Offer Shareholder, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Share(s) lodged with the WHITE Form of Share Offer Acceptance to such Inspur Offer Shareholder or, in the case of an Optionholder, the relevant letter(s) or other document(s) evidencing the grant of the relevant Options lodged with the PINK Form of Acceptance to such Optionholder.

5. ANNOUNCEMENTS

By 6:00 p.m. on the Closing Date (or such later time(s) and/or date(s) as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offers. The Offeror must publish an announcement in accordance with the Listing Rules on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended, expired or have become or been declared unconditional (whether as to acceptances or in all respects). The announcement will state the following:

- (a) the total number of Offer Shares, rights over Shares and Options for which acceptances of the Offers have been received;
- (b) the total number of Shares, rights over Shares and Options held, controlled or directed by the Offeror and its Concert Parties before the Offer Period;
- (c) the total number of Shares, rights over Shares and Options acquired or agreed to be acquired during the Offer Period by the Offeror and its Concert Parties; and
- (d) details of any relevant securities (as defined in Note 4 to Rule 22 of the Code) in the Company which the Offeror and any of its Concert Parties have borrowed or lent, save for any borrowed Offer Shares which have been either on-lent or sold.

The announcement will specify the percentages of the relevant classes of issued share capital, and the percentages of voting rights, represented by these numbers of Offer Shares.

In computing the total number of Offer Shares and Options represented by acceptances, only valid acceptances that are complete, in good order and fulfil the conditions set out in this Appendix I, and which have been received by the Share Registrar or the company secretary of the Company (as the case may be) by no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

As required under the Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Code and the Listing Rules.

6. NOMINEE REGISTRATION

To ensure the equality of treatment of all Inspur Offer Shareholders, registered Inspur Offer Shareholders who hold the Share(s) as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Share(s) whose investments are registered in the names of nominees to accept the Share Offer, it is essential that they provide instructions of their intentions to the Share Offer to their respective nominees.

7. OVERSEAS INSPUR OFFER SHAREHOLDERS AND OPTIONHOLDERS

- (a) The Offers are in respect of a company incorporated and listed in Hong Kong and are therefore subject to the procedure and disclosure requirements of laws, regulations and rules in Hong Kong which may be different to those in other jurisdictions. The ability of Inspur Offer Shareholders and Optionholders who are citizens, residents or nationals of jurisdictions outside of Hong Kong to participate in the Offers may be subject to the laws and regulations of the relevant jurisdictions. It is the responsibility of each such Inspur Offer Shareholder or Optionholder to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including obtaining any governmental, exchange control or other consents, or filing and registration and the payment of any transfer or other taxes due from such Inspur Offer Shareholder or Optionholder in such relevant jurisdictions.
- (b) Any acceptance by any Inspur Offer Shareholder or Optionholder will be deemed to constitute a representation and warranty from such Inspur Offer Shareholder or Optionholder to the Offeror and the Company that all local laws and requirements have been complied with and that the Offers can be accepted by such Inspur Offer Shareholder lawfully under the laws of the relevant jurisdiction. Inspur Offer Shareholders or Optionholders should consult their professional advisers if in doubt.

8. TAXATION

- (a) In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by each relevant Inspur Offer Shareholder at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptance of the Offer, whichever is higher, and will be deducted from the cash amount payable by the Offeror to the relevant Inspur Offer Shareholders accepting the Share Offer (where the stamp duty calculated includes a fraction of HK\$1, the stamp duty would be rounded-up to the nearest HK\$1). The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and, subject to such deduction aforesaid will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptance under the Share Offer. No stamp duty will be deducted from the amount paid or payable to Optionholders who accept the Option Offer.
- (b) Inspur Offer Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offers. It is emphasized that none of the Offeror or the Company, and their ultimate beneficial owners and parties acting in concert with any of them, Amasse, the Share Registrar or any of their respective directors or professional advisers or any persons involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offers.

9. GENERAL

- (a) All communications, notices, Forms of Acceptance, share certificate(s), transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Inspur Offer Shareholders and Optionholders will be delivered by or sent to or from them, or their designated agents, by post at their own risk, and none of the Offeror, the Company, ABCI, Amasse, the Share Registrar or any of their respective directors or agents or any other person involved in the Offers accepts any liability for any loss or delay in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the WHITE Form of Acceptance and the PINK Form of Acceptance form part of the terms of the Share Offer and the Option Offer, respectively.
- (c) The accidental omission to despatch this Composite Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate either the Share Offer or the Option Offer in any way.
- (d) The Share Offer and the Option Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of an Inspur Offer Shareholder or Optionholder will constitute such Inspur Offer Shareholder's or Optionholder's (as the case may be) agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Share Offer or Option Offer (as the case may be).
- (e) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, ABCI, or such person or persons as any of them may direct to complete, amend and execute any document on behalf of the person or persons accepting the Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Offer Shares and/or cancelling the Options in respect of which such person or persons has/have accepted the Offers.
- (f) In making their decision, Inspur Offer Shareholders and Optionholders must rely on their own examination of the Group and the terms of the Share Offer and the Option Offer, respectively, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, the Company, or their respective professional advisers. Inspur Offer Shareholders and Optionholders should consult their own professional advisers for professional advice.

10. INTERPRETATION

- (a) A reference in this Composite Document to an Inspur Offer Shareholder includes a reference to a person(s) who, by reason of an acquisition or transfer of Shares, is entitled to execute a Form of Acceptance and in the event of more than one person executing a Form of Acceptance, the provisions of this Composite Document apply to them jointly and severally.

- (b) A reference in this Composite Document and the Form(s) of Acceptance to the Offers, the Share Offer or the Option Offer shall include any extension and/or revision thereof.

1. FINANCIAL SUMMARY

Set out below is a summary of the financial information of the Group for the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017, which is extracted from the annual reports of the Company for the two financial years ended 31 December 2015 and 2016 and the interim report of the Company for the six months ended 30 June 2017, respectively.

	For the six months ended 30 June		For the financial year ended 31 December		
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
RESULTS					
Continuing operations					
Revenue	<u>550,669</u>	<u>521,703</u>	<u>1,163,170</u>	<u>971,659</u>	<u>891,082</u>
(Loss)/ profit before tax	(11,864)	(4,190)	87,737	(4,609)	(67,901)
income tax expenses	<u>(1,010)</u>	<u>(798)</u>	<u>(27,163)</u>	<u>(12,920)</u>	<u>(2,268)</u>
(Loss)/ profit for the year from continuing operations	(12,874)	(4,988)	60,574	(17,529)	(70,169)
Discontinued operations					
Profit for the year from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,896</u>	<u>974</u>
(Loss)/ profit for the year	<u>(12,874)</u>	<u>(4,988)</u>	<u>60,574</u>	<u>5,367</u>	<u>(69,195)</u>
Dividend payable to equity holders of the Company	<u>—</u>	<u>—</u>	<u>27,050</u>	<u>27,046</u>	<u>27,101</u>
(Loss)/ profit for the year attributable to:					
Owners of the Company	(12,635)	(5,179)	59,893	6,994	(68,079)
Non-controlling interests	(239)	191	681	(1,627)	(1,116)
Earning (loss) per share					
- Basic	(1.40 cents)	(0.57 cents)	6.64 cents	0.78 cents	(7.66 cents)
- Diluted	(1.40 cents)	(0.57 cents)	6.63 cents	0.78 cents	(7.66 cents)
Dividend per Share	<u>—</u>	<u>—</u>	<u>3 cents</u>	<u>3 cents</u>	<u>3 cents</u>

Notes:

- (i) The auditors of the Company issued unqualified opinion in respect of the consolidated financial statements of the Company for each of the three years ended 31 December 2016, dated 25 March 2015, 30 March 2016 and 27 March 2017 respectively.
- (ii) There were no extraordinary items or items which were exceptional because of its size, nature or incidence recorded on the consolidated financial statement of the Company during each of the three years ended 31 December 2016 and each of the six months ended 30 June 2017 and 2016.

2. FINANCIAL INFORMATION OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2016 extracted from the annual report of the Company for the year ended 31 December 2016.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(restated)</i>
Continuing operations			
Revenue	5	1,163,170	971,659
Cost of sales		<u>(821,009)</u>	<u>(679,430)</u>
Gross profit		342,161	292,229
Other income	7	155,199	94,146
Other gains and losses, net	7	544	3,411
Administrative expenses		(277,353)	(279,308)
Selling and distribution expenses		(182,653)	(160,983)
Change in fair value of investment properties	15	20,677	2,168
Share of profit of an associate		31,485	59,113
Share of loss of a joint venture		<u>(2,323)</u>	<u>(15,385)</u>
Profit (loss) before tax	9	87,737	(4,609)
Income tax expenses	8	<u>(27,163)</u>	<u>(12,920)</u>
Profit (loss) for the year from continuing operations		60,574	(17,529)
Discontinued operations			
Profit for the year from discontinued operations	35	<u>—</u>	<u>22,896</u>
Profit for the year		<u><u>60,574</u></u>	<u><u>5,367</u></u>

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(restated)</i>
Profit (loss) for the year attributable to owners of the Company			
— from continuing operations		59,893	(15,902)
— from discontinued operations		<u>—</u>	<u>22,896</u>
Profit for the year attributable to owners of the Company		<u>59,893</u>	<u>6,994</u>
Profit (loss) for the year attributable to non-controlling interests from continuing operations		<u>681</u>	<u>(1,627)</u>
Profit for the year		<u><u>60,574</u></u>	<u><u>5,367</u></u>
Earning (loss) per share	13		
From continuing and discontinued operations			
— Basic		<u>HK6.64 cents</u>	<u>HK0.78 cents</u>
— Diluted		<u>HK6.63 cents</u>	<u>HK0.78 cents</u>
From continuing operations			
— Basic		<u>HK6.64 cents</u>	<u>HK(1.76 cents)</u>
— Diluted		<u>HK6.63 cents</u>	<u>HK(1.76 cents)</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income*For the year ended 31 December 2016*

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Profit for the year	60,574	5,367
Other comprehensive (expense) income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Gain on revaluation upon transfer from property, plant and equipment to investment properties	33,845	38,136
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	(7,653)	(3,694)
Share of other comprehensive expense of an associate and a joint venture	(32,409)	(17,646)
Exchange differences arising on translation to presentation currency	<u>(103,246)</u>	<u>(70,358)</u>
Other comprehensive expense for the year, net of tax	<u>(109,463)</u>	<u>(53,562)</u>
Total comprehensive expense for the year	<u>(48,889)</u>	<u>(48,195)</u>
Total comprehensive (expense) income for the year attributable to:		
— Owners of the Company	(49,357)	(46,417)
— Non-controlling interests	<u>468</u>	<u>(1,778)</u>
	<u>(48,889)</u>	<u>(48,195)</u>

Consolidated Statement of Financial Position

At 31 December 2016

		31 December 2016	31 December 2015	1 January 2015
	NOTES	HK\$'000	HK\$'000 (restated)	HK\$'000 (restated)
Non-current assets				
Property, plant and equipment	14	312,869	505,788	522,449
Investment properties	15	506,568	324,606	21,900
Prepaid lease payments	16	32,447	35,564	38,503
Deposits for acquisition or property, plant and equipment		—	—	71,152
Other intangible assets	17	—	—	—
Available-for-sale investment	18	20,067	21,454	22,669
Interest in an associate	19	102,926	127,679	95,640
Interest in a joint venture	20	131,174	166,024	172,666
		<u>1,106,051</u>	<u>1,181,115</u>	<u>944,979</u>
Current assets				
Inventories	21	8,294	1,945	55,648
Trade and bills receivables	22	160,784	116,198	375,395
Prepaid lease payments	16	818	874	924
Prepayments, deposits and other receivables		78,806	51,108	69,085
Amounts due from customers for contract work	23	46,284	26,073	28,344
Entrusted loan receivables	24	326,942	—	139,598
Amount due from ultimate holding company	27	295	1,166	36,036
Amounts due from fellow subsidiaries	27	58,459	143,833	241,554
Taxation recoverable		—	—	113
Pledged bank deposits	25	18,449	14,994	29,537
Bank balances and cash	25	852,975	1,095,218	1,015,994
		<u>1,552,106</u>	<u>1,451,409</u>	<u>1,992,228</u>

		31 December 2016	31 December 2015	1 January 2015
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>	<i>HK\$'000</i> <i>(restated)</i>
Current liabilities				
Trade and bills payables	26	96,184	134,164	302,047
Other payables, deposits received and accrued expenses		479,857	470,169	393,287
Amounts due to customers for contract work	23	188,819	117,858	253,034
Amount due to ultimate holding company	28	13,409	1,095	2,781
Amounts due to fellow subsidiaries	28	27,855	43,592	65,121
Deferred income - government grant	31	49,753	12,118	16,884
Taxation payable		12,852	10,425	9,798
		<u>868,729</u>	<u>789,421</u>	<u>1,042,952</u>
Net current assets		<u>683,377</u>	<u>661,988</u>	<u>949,276</u>
Total assets less current liabilities		<u>1,789,428</u>	<u>1,843,103</u>	<u>1,894,255</u>
Non-current liabilities				
Deferred income - government grant	31	12,467	28,074	27,698
Deferred tax liabilities	32	42,370	24,277	20,619
		<u>54,837</u>	<u>52,351</u>	<u>48,317</u>
		<u>1,734,591</u>	<u>1,790,752</u>	<u>1,845,938</u>
Capital and reserves				
Share capital	29	9,015	9,015	9,015
Reserves		1,725,316	1,780,572	1,833,980
Equity attributable to owners of the Company		1,734,331	1,789,587	1,842,995
Non-controlling interests		260	1,165	2,943
Total equity		<u>1,734,591</u>	<u>1,790,752</u>	<u>1,845,938</u>

The consolidated financial statements on pages 70 to 218 were approved and authorised for issue by the Board of Directors on 27 March 2017 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 2016

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve	Special reserve	Share option reserve	Translation reserve	Revaluation reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015 (originally stated)	9,015	953,077	(2,634)	92	22,623	240,162	—	609,278	1,831,613	2,943	1,834,556
Adjustment on investment properties (restated)	—	—	—	—	—	—	10,040	1,342	11,382	—	11,382
At 1 January 2015 (restated)	9,015	953,077	(2,634)	92	22,623	240,162	10,040	610,620	1,842,995	2,943	1,845,938
Profit (loss) for the year (restated)	—	—	—	—	—	—	—	6,994	6,994	(1,627)	5,367
Gain on revaluation upon transfer from property, plant and equipment to investment properties	—	—	—	—	—	—	38,136	—	38,136	—	38,136
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	—	—	—	—	—	—	(3,694)	—	(3,694)	—	(3,694)
Share of other comprehensive expense of an associate and a joint venture	—	—	—	—	—	(17,646)	—	—	(17,646)	—	(17,646)
Exchange difference arising on translation to presentation currency	—	—	—	—	—	(70,207)	—	—	(70,207)	(151)	(70,358)
Total comprehensive expense for the year (restated)	—	—	—	—	—	(87,853)	34,442	6,994	(46,417)	(1,778)	(48,195)
Dividend paid (note 12)	—	—	—	—	—	—	—	(27,046)	(27,046)	—	(27,046)
Forfeitures of share options (note 30)	—	—	—	—	(2,128)	—	—	2,128	—	—	—
Recognition of equity settled share based payments (note 30)	—	—	—	—	20,055	—	—	—	20,055	—	20,055
	—	—	—	—	17,927	(87,853)	34,442	(17,924)	(53,408)	(1,778)	(55,186)
At 31 December 2015 (restated)	9,015	953,077	(2,634)	92	40,550	152,309	44,482	592,696	1,789,587	1,165	1,790,752

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve	Special reserve	Share option reserve	Translation reserve	Revaluation reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year	—	—	—	—	—	—	—	59,893	59,893	681	60,574
Gain on revaluation upon transfer from property, plant and equipment	—	—	—	—	—	—	33,845	—	33,845	—	33,845
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	—	—	—	—	—	—	(7,653)	—	(7,653)	—	(7,653)
Share of other comprehensive expense of an associate and a joint venture	—	—	—	—	—	(32,409)	—	—	(32,409)	—	(32,409)
Exchange difference arising on translation to presentation currency	—	—	—	—	—	(103,033)	—	—	(103,033)	(213)	(103,246)
Total comprehensive income (expense) for the year	—	—	—	—	—	(135,442)	26,192	59,893	(49,357)	468	(48,889)
Dividend paid (note 12)	—	—	—	—	—	—	—	(27,046)	(27,046)	—	(27,046)
Cancellation of share options (note 30)	—	—	—	—	(527)	—	—	527	—	—	—
Recognition of equity-settled share based payments (note 30)	—	—	—	—	21,147	—	—	—	21,147	—	21,147
Repurchase of paid-up capital of a subsidiary	—	—	—	—	—	—	—	—	—	(1,373)	(1,373)
	—	—	—	—	20,620	(135,442)	26,192	33,374	(55,256)	(905)	(56,161)
At 31 December 2016	9,015	953,077	(2,634)	92	61,170	16,867	70,674	626,070	1,734,331	260	1,734,591

Notes:

- (a) Other reserve was resulted from the acquisition of partial interest in a subsidiary in prior years without changes in control.
- (b) The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the reorganisation prior to the listing of the Company's shares in 2003.

Consolidated Statement of Cash Flows*For the year ended 31 December 2016*

	2016	2015
<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
OPERATING ACTIVITIES		
Profit for the year	60,574	5,367
Adjustments for:		
Income tax	27,163	24,491
Share of profit of an associate	(31,485)	(59,113)
Share of loss of a joint venture	2,323	15,385
Interest income on entrusted loan receivable	(10,751)	(9,525)
Interest income on bank deposits	(16,091)	(26,314)
Change in fair value of investment properties	(20,677)	(2,168)
Dividend income from available-for-sale investment	(2,861)	(1,092)
Depreciation of property, plant and equipment	29,561	24,920
Amortisation of prepaid lease payments	856	456
Net (gain) loss on disposal and written off of property, plant and equipment	(12)	2
Allowance for bad and doubtful debts	3,664	22,383
Reversal of allowance for bad and doubtful debts	(13,768)	(5,195)
Write-down of inventories	—	10,193
Government subsidies and grant	(31,407)	(3,552)
Gain on disposals of subsidiaries	—	(84,890)
Recognition of equity settled share based payments	21,147	20,055
Impairment loss on amounts due from customers for contract work	8,954	6,651
Operating cash flows before movements in working capital	27,190	(61,946)
Increase in inventories	(6,773)	(7,785)
(Increase) decrease in trade and bills receivables	(44,569)	58,434
(Increase) decrease in prepayments, deposits and other receivables	(31,692)	4,814
Increase in amounts due from customers for contract work	(31,861)	(6,242)
Decrease (increase) in amounts due from fellow subsidiaries	75,999	(26,371)
Decrease (increase) in amount due from ultimate holding company	958	(1,583)
Decrease in trade and bills payables	(30,661)	(105,141)
Increase in other payables, deposits received and accrued expenses	39,999	139,265
Increase in amounts due to customers for contract work	82,208	114,993
Increase (decrease) in amounts due to fellow subsidiaries	5,464	(37,084)
(Decrease) increase in amount due to ultimate holding company	(234)	239
Receipts of government subsidies and grant	57,170	18,599
Cash generated from operations	143,198	90,192
Income taxes paid	(10,186)	(22,717)
NET CASH FROM OPERATING ACTIVITIES	133,012	67,475

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(restated)</i>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(18,118)	(248,457)
Entrusted loans advanced to a fellow subsidiary		(677,599)	(657,515)
Repayment of entrusted loans from a fellow subsidiary		346,313	794,416
Net cash inflow from disposals of businesses	36	—	103,402
Interest received		16,091	26,314
Withdrawal of pledged bank deposits		18,079	60,756
Placement to pledged bank deposits		(22,708)	(47,592)
Proceeds from disposal of property, plant and equipment		661	1,181
Dividend received from available-for-sale investment		2,861	1,092
Dividend received from an associate		48,831	18,171
Repayment from fellow subsidiaries		3,590	—
Advance to ultimate holding company		(112)	(1,831)
Repurchase of paid-up capital of a subsidiary		(1,373)	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		<u>(283,484)</u>	<u>49,937</u>
FINANCING ACTIVITIES			
Dividend paid to ordinary shareholders		(27,046)	(27,046)
Repayment to ultimate holding company		13,190	—
Advance from fellow subsidiaries		—	43,051
Repayment to fellow subsidiaries		(18,980)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(32,836)</u>	<u>16,005</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(183,308)	133,417
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,095,218	1,015,994
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>(58,935)</u>	<u>(54,193)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash		<u>852,975</u>	<u>1,095,218</u>

Notes to the Consolidated Financial Statements*For the year ended 31 December 2016***1. GENERAL**

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”). In the opinion of the directors of the Company, Inspur Overseas Investment Limited, a company incorporated in the British Virgin Islands (“BVI”) and Inspur Group Limited (“IPG”), a company established in the People’s Republic of China (“PRC”) are the immediate holding company and ultimate holding 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 statements 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 sales of Information Technology (“IT”) peripherals and software, software development and provision of software outsourcing services.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)**Amendments to HKFRSs that are mandatorily effective for the current year**

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

The application of the 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.

Summary of the effect of changes in accounting policies of investment properties

To more accurately reflect the value of investment properties held by the Group, enhance the comparability of financial information with the peers, assist the Company's management and investors to keep abreast of the financial condition of the Group on a timely basis, the Group has changed the accounting policies for investment properties from the cost model to the fair value model with effect from 1 January 2016 and the board of directors approved the changes of accounting policies of investment properties on 1 January 2016. The Group has adopted this amendment retrospectively and the effect of the changes in the Group's accounting policies on the results for the current and preceding years by line items presented in the consolidated statements of profit or loss and other comprehensive income is as follows:

	2016 (Recognition of investment properties using cost model) <i>HK\$'000</i>	Effect of change in accounting policy <i>HK\$'000</i>	2016 (Recognition of investment properties using fair value model) <i>HK\$'000</i> <i>(audited)</i>
Revenue	1,163,170	—	1,163,170
Cost of sales	<u>(821,009)</u>	<u>—</u>	<u>(821,009)</u>
Gross profit	342,161	—	342,161
Other income	155,199	—	155,199
Other gains and losses, net	544	—	544
Administrative expenses	(289,349)	11,996	(277,353)
Selling and distribution expenses	(182,653)	—	(182,653)
Change in fair value of investment properties	—	20,677	20,677
Share of profit of an associate	31,485	—	31,485
Share of loss of a joint venture	<u>(2,323)</u>	<u>—</u>	<u>(2,323)</u>
Profit before tax	55,064	32,673	87,737
Income tax expenses	<u>(11,531)</u>	<u>(15,632)</u>	<u>(27,163)</u>
Profit for the year	<u>43,533</u>	<u>17,041</u>	<u>60,574</u>
Profit for the year attributable to			
— owners of the Company	42,852	17,041	59,893
— non-controlling interests	<u>681</u>	<u>—</u>	<u>681</u>
Profit for the year	<u>43,533</u>	<u>17,041</u>	<u>60,574</u>

	2016 (Recognition of investment properties using cost model) <i>HK\$'000</i>	Effect of change in accounting policy <i>HK\$'000</i>	2016 (Recognition of investment properties using fair value model) <i>HK\$'000</i> <i>(audited)</i>
Profit for the year	<u>43,533</u>	<u>17,041</u>	<u>60,574</u>
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Gain on revaluation upon transfer from property, plant and equipment to investment properties	—	33,845	33,845
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	—	(7,653)	(7,653)
Share of other comprehensive expense of an associate and a joint venture	(32,409)	—	(32,409)
Exchange differences arising on translation to presentation currency	<u>(98,789)</u>	<u>(4,457)</u>	<u>(103,246)</u>
Other comprehensive expense the year, net of tax	<u>(131,198)</u>	<u>21,735</u>	<u>(109,463)</u>
Total comprehensive expense for the year	<u>(87,665)</u>	<u>38,776</u>	<u>(48,889)</u>
Total comprehensive expense for the year attributable to:			
— owners of the Company	(88,133)	38,776	(49,357)
— non-controlling interests	<u>468</u>	<u>—</u>	<u>468</u>
	<u>(87,665)</u>	<u>38,776</u>	<u>(48,889)</u>

	2015 (originally stated) <i>HK\$'000</i>	Effect of restatements <i>HK\$'000</i>	2015 (restated) <i>HK\$'000</i>
Continuing operations			
Revenue	971,659	—	971,659
Cost of sales	<u>(679,430)</u>	<u>—</u>	<u>(679,430)</u>
Gross profit	292,229	—	292,229
Other income	94,146	—	94,146
Other gains and losses, net	3,411	—	3,411
Administrative expenses	(284,831)	5,523	(279,308)
Selling and distribution expenses	(160,983)	—	(160,983)
Change in fair value of investment properties	—	2,168	2,168
Share of profit of an associate	59,113	—	59,113
Share of loss of a joint venture	<u>(15,385)</u>	<u>—</u>	<u>(15,385)</u>
Loss before tax	(12,300)	7,691	(4,609)
Income tax expenses	<u>(11,897)</u>	<u>(1,023)</u>	<u>(12,920)</u>
Loss for the year from continuing operations	<u>(24,197)</u>	<u>6,668</u>	<u>(17,529)</u>
Discontinued operations			
Profit for the year from discontinued operations	<u>22,896</u>	<u>—</u>	<u>22,896</u>
(Loss) profit for the year	<u>(1,301)</u>	<u>6,668</u>	<u>5,367</u>
(Loss) profit for the year attributable to owners of the Company			
— from continuing operations	(22,570)	6,668	(15,902)
— from discontinued operations	<u>22,896</u>	<u>—</u>	<u>22,896</u>
Profit for the year attributable to owners of the Company	<u>326</u>	<u>6,668</u>	<u>6,994</u>
Loss for the year attributable to non-controlling interests from continuing operations	<u>(1,627)</u>	<u>—</u>	<u>(1,627)</u>
(Loss) profit for the year	(1,301)	6,668	5,367

	2015 (originally stated) <i>HK\$'000</i>	Effect of restatements <i>HK\$'000</i>	2015 (restated) <i>HK\$'000</i>
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Gain on revaluation upon transfer from property, plant and equipment to investment properties	—	38,136	38,136
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	—	(3,694)	(3,694)
Share of other comprehensive expense of an associate and a joint venture	(17,646)	—	(17,646)
Exchange differences arising on translation to presentation currency	<u>(68,693)</u>	<u>(1,665)</u>	<u>(70,358)</u>
Other comprehensive expense for the year, net of tax	<u>(86,339)</u>	<u>32,777</u>	<u>(53,562)</u>
Total comprehensive expense for the year	<u>(87,640)</u>	<u>39,445</u>	<u>(48,195)</u>
Total comprehensive expense for the year attributable to:			
— Owners of the Company	(85,862)	39,445	(46,417)
— Non-controlling interests	<u>(1,778)</u>	<u>—</u>	<u>(1,778)</u>
	<u>(87,640)</u>	<u>39,445</u>	<u>(48,195)</u>

The effects of the changes in accounting policies described above for certain line items presented in the consolidated financial position of the Group as at 31 December 2016, 31 December 2015 and 1 January 2015 are as follows:

	31 December 2016 (Recognition of investment properties using cost model) <i>HK\$'000</i>	Effect of change in accounting policy <i>HK\$'000</i>	31 December 2016 (Recognition of investment properties using fair value model) <i>HK\$'000</i> <i>(audited)</i>
Investment properties	390,474	116,094	506,568
Deferred tax liabilities	<u>(15,879)</u>	<u>(26,491)</u>	<u>(42,370)</u>
Total effect on net assets	<u>374,595</u>	<u>89,603</u>	<u>464,198</u>
Retained profits	601,019	25,051	626,070
Translation reserve	22,989	(6,122)	16,867
Revaluation reserve	<u>—</u>	<u>70,674</u>	<u>70,674</u>
Total effect on equity	<u>624,008</u>	<u>89,603</u>	<u>713,611</u>
	31 December 2015 (originally stated) <i>HK\$'000</i>	Effect of restatements <i>HK\$'000</i>	31 December 2015 (restated) <i>HK\$'000</i>
Investment properties	269,255	55,351	324,606
Deferred tax liabilities	<u>(19,753)</u>	<u>(4,524)</u>	<u>(24,277)</u>
Total effect on net assets	<u>249,502</u>	<u>50,827</u>	<u>300,329</u>
Retained profits	584,686	8,010	592,696
Translation reserve	153,974	(1,665)	152,309
Revaluation reserve	<u>—</u>	<u>44,482</u>	<u>44,482</u>
Total effect on equity	<u>738,660</u>	<u>50,827</u>	<u>789,487</u>

	1 January 2015 (originally stated) <i>HK\$'000</i>	Effect of restatements <i>HK\$'000</i>	1 January 2015 (restated) <i>HK\$'000</i>
Investment properties and the effect on net assets	<u>10,518</u>	<u>11,382</u>	<u>21,900</u>
Retained profits	609,278	1,342	610,620
Revaluation reserve	<u>—</u>	<u>10,040</u>	<u>10,040</u>
Total effect on equity	<u>609,278</u>	<u>11,382</u>	<u>620,660</u>

The effect of the changes in accounting policies described above on basic and diluted earning (loss) per share as follows:

	2016 (Recognition of investment properties using cost model) <i>HK\$'000</i>	Effect of change in accounting policy <i>HK\$'000</i>	2016 (Recognition of investment properties using fair value model) <i>HK\$'000</i> <i>(audited)</i>
Earning per share			
— Basic	<u>HK4.75 cents</u>	<u>HK1.89 cents</u>	<u>HK6.64 cents</u>
— Diluted	<u>HK4.74 cents</u>	<u>HK1.89 cents</u>	<u>HK6.63 cents</u>

	2015 (originally stated)	Effect of restatements	2015 (restated)
Earning (loss) per share from continuing and discontinued operations			
— Basic	<u>HK0.04 cents</u>	<u>HK0.74 cents</u>	<u>HK0.78 cents</u>
— Diluted	<u>HK0.04 cents</u>	<u>HK0.74 cents</u>	<u>HK0.78 cents</u>
From continuing operation			
— Basic	<u>HK(2.50 cents)</u>	<u>HK0.74 cents</u>	<u>HK(1.76 cents)</u>
— Diluted	<u>HK(2.50 cents)</u>	<u>HK0.74 cents</u>	<u>HK(1.76 cents)</u>

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 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
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 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

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 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 December 2016, HKFRS 9 application in the future may have a material impact on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately HK\$15,911,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

The directors of the Company do not anticipate that the application of other new and amendments to HKFRSs will have a material effect on the amounts recognised in the Group's consolidated financial statements.

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.

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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

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

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

The principle accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

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.

Allocation of total comprehensive income to 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.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, 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 other comprehensive income 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 HKAS 39, when applicable, the cost initial recognition of an investment in an associate or a joint venture.

Investments in an associate and a joint venture

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. 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 requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "*Impairment of Assets*" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When 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 HKAS 39, 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 other comprehensive income 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 other comprehensive income 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) when the equity method is discontinued.

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 other comprehensive income 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 recognition

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

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

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees are recognised by reference to the proportion of the total cost of providing the service; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

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

Revenue from provision of consultancy and software development services, software outsourcing and commission income are recognised when services are provided.

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

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

Value Added Tax ("VAT") refund is recognised as income when the Group's rights to receive the VAT refund has been established.

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

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.

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.

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

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

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

Investment properties

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

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

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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.

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.

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.

Software development contracts

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

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade receivables.

Research and development expenditure

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

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 purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated from their functional currencies into the presentation currency of the Company (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate). On deconsolidation of a group entity which is not a foreign operation, exchange differences which were accumulated in the translation reserve arising from translating the assets and liabilities of the relevant entity into the presentation currency of the Group, will be transferred directly to retained profits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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 taxation' 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 base 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interest in a joint venture, 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 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.

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

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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income 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.

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 changes in estimate being accounted for on a prospective basis.

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.

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 recognised as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost 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.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets comprise loans and receivables and available-for-sale financial assets. The accounting policies are set out below. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

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

Effective interest method

The effective interest method is a method of calculating the 'amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instrument are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividend is established.

Impairment of financial assets

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

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

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

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

For loans and receivables, the amount of the impairment loss recognised is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

Financial liabilities and equity instrument

Debt and equity instruments issued by a group entity 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.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accrued expenses and amounts due to ultimate holding company and fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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 assets and substantially all the risk and reward of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Leasehold land and building

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

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

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 determined at the grant date of the equity-settled share-based payments 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 options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and other retirement benefit schemes managed by the PRC government are charged as expenses when employees have rendered service entitling them to the contributions.

Short-term and other long-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.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

4. CRITICAL ACCOUNTING JUDGEMENTS 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 judgements, 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 judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors 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 purposes 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 PRC, the Group recognised additional deferred taxes relating to Land Appreciation Tax and the PRC Enterprise Income Tax 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

The Group recognises contract revenue and profit on a software development contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of software development works. Revenue and costs in connection with software development contracts are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract

costs. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the software development contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

Estimation of fair value of investment property

At the end of the reporting period, one of the Group's investment properties in the PRC is stated at fair value of HK\$485,268,000 (2015: HK\$302,806,000) based on the valuation performed by independent qualified professional valuers. In determining the fair value, the valuers have 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 is reflective of the current market conditions and the current condition of the property. 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.

Estimated impairment of trade and bills receivables, entrusted loan receivable and amounts due from ultimate holding company and fellow subsidiaries

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade and bills receivable is HK\$160,784,000 (net of allowance for doubtful debts of HK\$28,420,000) (2015: carrying amount of HK\$116,198,000, net of allowance for doubtful debts of HK\$53,222,000). Additionally, as at 31 December, 2016, the carrying amounts of amounts due from ultimate holding company and fellow subsidiaries are HK\$295,000 (2015: HK\$1,166,000) and HK\$58,459,000 (2015: HK\$143,833,000), respectively. As at 31 December, 2016, the carrying amount of entrusted loan receivable is HK\$326,942,000 (2015: nil).

Estimated impairment of interest in a joint venture

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of the recoverable amount of the joint venture which is the higher of value in use and fair value less costs to sell. The Group has carried out impairment testing to determine whether the Group's interest in a joint venture is impaired as indicated by the loss incurred in recent years. The management of the Group is unable to have a reliable measurement of the fair value less costs to sell and applied value in use calculation to estimate the future cash flows of the Group expected to arise from the joint venture and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2016, the carrying amount of interest in a joint venture is amounting to HK\$131,174,000 (2015: HK\$166,024,000) and no impairment loss has been recognised. Details of the joint venture are disclosed in note 20.

5. REVENUE

Continuing operations

Revenue represents revenue arising on software development contracts and software outsourcing contracts. An analysis of the Group's revenue for the year from continuing operations is as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from software development contracts		
— sales of IT peripherals and software	201,732	219,509
— software development	627,107	475,527
Revenue from software outsourcing contracts	<u>334,331</u>	<u>276,623</u>
	<u>1,163,170</u>	<u>971,659</u>

6. SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 "Operating Segments" are as follows:

1. Software development and solution
2. Software outsourcing

Two types of operations labelled as (i) development of self-help banking facilities and related software and provision of related services ("Finance Business") and (ii) development of telecommunication system network software and provision of system integration service ("Telecommunication Business") that were included in category (1) above were discontinued in September 2015. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 35.

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations and information about reportable and operating segment.

For the year ended 31 December 2016

Continuing operations

	Software development and solution <i>HK\$'000</i>	Software outsourcing <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>828,839</u>	<u>334,331</u>	<u>1,163,170</u>
Segment profit (loss)	<u>62,821</u>	<u>(17,160)</u>	45,661
Other income, gains and losses, net			59,058
Change in fair value of investment properties			20,677
Share of profit of an associate			31,485
Share of loss of a joint venture			(2,323)
Share based payment			(21,147)
Amortisation of prepaid lease payments			(856)
Central administrative costs			<u>(44,818)</u>
Profit before tax			<u>87,737</u>

For the year ended 31 December 2015 (restated)

Continuing operations

	Software development and solution	Software outsourcing	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>695,036</u>	<u>276,623</u>	<u>971,659</u>
Segment loss	<u>(29,990)</u>	<u>(13,262)</u>	(43,252)
Other income, gains and losses, net			39,224
Change in fair value of investment properties			2,168
Share of profit of an associate			59,113
Share of loss of a joint venture			(15,385)
Share based payments			(20,055)
Amortisation of prepaid lease payments			(456)
Central administrative costs			<u>(25,966)</u>
Loss before tax			<u>(4,609)</u>

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of other income, other gains and losses including mainly net foreign exchange gain or loss and net gain or loss on disposal and written off of property, plant and equipment, share of profit of an associate, share of loss of a joint venture, share based payments, amortisation of prepaid lease payments and central administration costs including directors' remuneration. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

At 31 December 2016

	Software development and solution	Software outsourcing	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Segment assets	<u>636,621</u>	<u>118,963</u>	755,584
Property, plant and equipment			290,646
Investment properties			506,568
Prepaid lease payments			33,265
Interest in an associate			102,926
Interest in a joint venture			131,174
Entrusted loan receivables			326,942
Bank balances and cash			491,250
Other unallocated assets			<u>19,802</u>
Consolidated total assets			<u>2,658,157</u>
LIABILITIES			
Segment liabilities	<u>699,512</u>	<u>89,624</u>	789,136
Deferred tax liabilities			40,410
Other unallocated liabilities			<u>94,020</u>
Consolidated total liabilities			<u>923,566</u>

At 31 December 2015 (restated)

	Software development and solution	Software outsourcing	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Segment assets	<u>293,102</u>	<u>114,750</u>	407,852
Property, plant and equipment			491,004
Investment properties			324,606
Prepaid lease payments			36,438
Interest in an associate			127,679
Interest in a joint venture			166,024
Bank balances and cash			1,064,326
Other unallocated assets			<u>14,595</u>
Consolidated total assets			<u>2,632,524</u>
LIABILITIES			
Segment liabilities	<u>588,633</u>	<u>85,767</u>	674,400
Deferred tax liabilities			22,182
Other unallocated liabilities			<u>145,190</u>
Consolidated total liabilities			<u>841,772</u>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than certain property, plant and equipment and investment properties for Group administrative purpose, prepaid lease payments, interest in an associate, interest in a joint venture, entrusted loan receivables, bank balances and cash and other unallocated assets including certain non-trade portion of amounts due from related parties, prepayments, deposits and other receivables.
- all liabilities are allocated to operating and reportable segments, other than certain deferred tax liabilities and other liabilities including certain non-trade portion of amounts due to related parties and other payable in relation to corporate administrative costs.

Other segment information

For the year ended 31 December 2016

Continuing operations

Amounts included in the measure of segment profit or segment assets:

	Software development and solution	Software outsourcing	Total	Unallocated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions to property, plant and equipment	13,370	2,519	15,889	2,229	18,118
Depreciation of property, plant and equipment	6,638	2,334	8,972	20,589	29,561
Change in fair value of investment properties	—	—	—	20,677	20,677
Amortisation of prepaid lease payments	—	—	—	856	856
Allowance for bad and doubtful debts	3,664	—	3,664	—	3,664
Reversal of allowance for bad and doubtful debts	(13,768)	—	(13,768)	—	(13,768)
Impairment loss on amounts due from customers for contract work	<u>8,954</u>	<u>—</u>	<u>8,954</u>	<u>—</u>	<u>8,954</u>

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets and not allocated to any operating and reportable segment.

	<i>HK\$'000</i>
Interest in an associate	102,926
Interest in a joint venture	131,174
Share of profit of an associate	31,485
Share of loss of a joint venture	<u>(2,323)</u>

For the year ended 31 December 2015 (restated)

Continuing operations

Amounts included in the measure of segment profit or segment assets:

	Software development and solution	Software outsourcing	Total	Unallocated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions to property, plant and equipment	5,630	3,875	9,505	166,935	176,440
Depreciation of property, plant and equipment	12,358	925	13,283	10,186	23,469
Change in fair value of investment properties	—	—	—	2,168	2,168
Amortisation of prepaid lease payments	—	—	—	456	456
Allowance for bad and doubtful debts	3,636	—	3,636	—	3,636
Reversal of allowance for bad and doubtful debts	(328)	—	(328)	—	(328)
Impairment loss on amounts due from customers for contract work	<u>6,651</u>	<u>—</u>	<u>6,651</u>	<u>—</u>	<u>6,651</u>

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets and not allocated to any operating and reportable segment.

	<i>HK\$'000</i>
Interest in an associate	127,679
Interest in a joint venture	166,024
Share of profit of an associate	59,113
Share of loss of a joint venture	<u>(15,385)</u>

Geographical information

The Group's operations are currently carried out in the PRC (excluding Hong Kong), the country of domicile, and Hong Kong except for some services rendered by the provision of software outsourcing segment which are located in other regions.

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

	Revenue from external customers		Non-current assets*	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000 (restated)
Hong Kong	—	—	29,543	30,260
The PRC (excluding Hong Kong)	950,955	785,794	1,054,319	1,126,166
Others	212,215	185,865	2,122	3,235
	<u>1,163,170</u>	<u>971,659</u>	<u>1,085,984</u>	<u>1,159,661</u>

* Non-current assets excluded those relating to available-for-sale investment.

Information about major customers***Continuing operations***

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016 HK\$'000	2015 HK\$'000
Customer A ¹	<u>177,147</u>	<u>183,416</u>

¹ Revenue from software outsourcing segment.

7. OTHER INCOME, OTHER GAINS AND LOSSES, NET

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
Continuing operations		
Other income:		
Interest income on bank deposits	16,091	26,287
Interest income on entrusted loan receivables	10,751	9,525
Value added tax refund (Note a)	61,350	49,979
Government subsidies and grants (Note b)	31,407	3,442
Dividend income from available-for-sale investment	2,861	1,092
Rental income	32,487	3,821
Others	<u>252</u>	<u>—</u>
	<u>155,199</u>	<u>94,146</u>
Other gains and losses, net:		
Net foreign exchange gain	532	2,823
Net gain (loss) on disposal and written off of property, plant and equipment	12	(2)
Others	<u>—</u>	<u>590</u>
	<u>544</u>	<u>3,411</u>

Notes:

- (a) Inspur (Shandong) Electronic Information Company Limited (“Inspur Shandong Electronic”) and Inspur Group Shandong Genersoft Incorporation (“Inspur Genersoft”) 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 2016, the amount of approximately HK\$3,309,000 (2015: HK\$3,134,000) represents the subsidies received from the PRC Government for the purpose of encouraging the development of group entities engaged in new and high technology sector. The subsidies received are in substance a kind of immediate financial support to the group’s entities with no future related costs and recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to the subsidies granted to the Group.

For the year ended 31 December 2016, the amount of approximately HK\$28,098,000 (2015: HK\$308,000) represents the grants from the Government for funding of some feasibility studies which benefit the society as a whole. The grants received are recognised as income when i) the related feasibility studies have been completed, ii) the approval of the relevant Government authority has been obtained and iii) no other future conditions are required to fulfil by the Group.

8. INCOME TAX EXPENSES

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
Continuing operations		
Current tax:		
PRC Enterprise Income Tax (“EIT”)	11,127	3,525
Underprovision in prior years:		
EIT	4,143	9,147
Deferred taxation (note 32)	<u>11,893</u>	<u>248</u>
	<u>27,163</u>	<u>12,920</u>

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

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 Gensoft. Inspur Gensoft are recognised as “New and High Technology Enterprise” and therefore entitled to apply a tax rate of 15%. The entitlement of this tax benefit is subject to renewal by respective tax bureau in the PRC every three years. The latest approval for Inspur Gensoft enjoying this tax benefit were obtained in year 2014.

The implementation of the EIT Law has no impact on the tax relief granted to the PRC subsidiaries.

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

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Profit (loss) before tax	<u>87,737</u>	<u>(4,609)</u>
Tax at PRC EIT rate of 25% (2015: 25%) (Note)	21,934	(1,152)
Tax effect of share of profit of an associate	(7,871)	(14,778)
Tax effect of share of loss of a joint venture	581	3,846
Tax effect of expenses not deductible for tax purpose	10,439	19,927
Tax effect of income not taxable for tax purpose	(1,823)	(89)
Tax effect of tax losses and deductible temporary differences not recognised	4,203	3,084
Tax effect of change in fair value of investment properties	(5,169)	(542)
Utilisation of tax losses previously not recognised	(3,570)	—
Underprovision in respect of previous years	4,143	9,147
EIT concessionary rate	(7,397)	(4,585)
Deferred tax on withholding tax arising from PRC subsidiaries	(3,739)	(2,961)
Deferred tax on change in fair value of investment property in PRC	15,632	1,023
Others	<u>(200)</u>	<u>—</u>
Income tax expenses for the year	<u>27,163</u>	<u>12,920</u>

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

At the end of the reporting period, the Group had unused tax losses of HK\$92,033,000 (2015: HK\$109,550,000), 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. Other than tax losses disclosed below, the tax losses may be carried forward indefinitely.

The unused tax losses will expire in the following years:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Year 2016	—	7,726
Year 2017	36,942	41,690
Year 2018	5,985	11,825
Year 2019	5,246	18,358
Year 2020	13,709	12,337
Year 2021	16,981	—
	<u>78,863</u>	<u>91,936</u>

9. PROFIT (LOSS) BEFORE TAX

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Continuing operations		
Profit (loss) before tax has been arrived at after charging (crediting):		
Auditor's remuneration	1,800	2,000
Allowance for bad and doubtful debts	3,664	3,636
Reversal of allowance for bad and doubtful debts	(13,768)	(328)
Impairment loss on amounts due from customers for contract work	8,954	6,651
Research and development costs recognised as expense	111,328	71,793
Cost of inventories recognised as expense in cost of sales	141,605	107,636
Depreciation for property, plant and equipment	29,561	23,469
Change in fair value of investment properties	(20,677)	(2,168)
Amortisation of prepaid lease payments	856	912
Less: Prepaid lease payments capitalised into construction in progress	—	(456)
	<u>856</u>	<u>456</u>
Directors' remuneration (note 10)	5,035	6,789
Other staff costs		
Salaries and other benefits	507,989	443,266
Share based payments	18,948	17,187
Retirement benefits scheme contributions	105,692	82,279
	<u>637,664</u>	<u>549,521</u>
Operating lease rentals in respect of office premises and staff quarters	<u>15,970</u>	<u>21,579</u>

10. 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, as follows:

	<u>Other emoluments</u>				Total <i>HK\$'000</i> <i>(Note(11))</i>
	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Share based payment <i>HK\$'000</i>	
<i>For the year ended</i>					
<i>31 December 2016</i>					
Executive Directors (Note 8)					
Wang Xingshan (Note 1)	300	665	56	1,305	2,326
Jin Joe Xiaozhou (Note 6)	—	1,449	126	458	2,033
Non-Executive Directors (Note 9)					
Shen Yuanqin	—	—	—	95	95
Dong Hailong	—	—	—	95	95
Independent Non-Executive Directors (Note 10)					
Wong Lit Chor, Alexis	120	—	—	151	271
Zhang Ruijun	60	—	—	95	155
Ding Xiangqian (Note 7)	60	—	—	—	60
Total	<u>540</u>	<u>2,114</u>	<u>182</u>	<u>2,199</u>	<u>5,035</u>

	Other emoluments				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Share based payment HK\$'000	
<i>For the year ended</i>					
<i>31 December 2015</i>					
Executive Directors (Note 8)					
Wang Xingshan (Note 1)	—	1,007	56	1,649	2,712
Chen Dongfeng (Note 2)	—	614	24	—	638
Sun Chengtong (Note 5)	—	635	44	—	679
Jin Joe Xiaozhou (Note 6)	—	1,301	—	669	1,970
Non-Executive Directors (Note 9)					
Shen Yuanqin	—	—	—	110	110
Dong Hailong	—	—	—	110	110
Independent Non-Executive Directors (Note 10)					
Wong Lit Chor, Alexis	120	—	—	220	340
Dai Ruimin (Note 3)	18	—	—	—	18
Zhang Ruijun	60	—	—	110	170
Geng Yushui (Note 4)	39	—	—	—	39
Ding Xiangqian (Note 7)	3	—	—	—	3
Total	<u>240</u>	<u>3,557</u>	<u>124</u>	<u>2,868</u>	<u>6,789</u>

Notes:

- (1) Wang Xingshan is the Chief Executive. His emoluments disclosed above include those for services rendered by them as the Chief Executive.
- (2) Chen Dongfeng resigned as an Executive Director on 15 July 2015.
- (3) Dai Ruimin resigned as an Independent Non-Executive Director on 17 April 2015.
- (4) Geng Yushui was appointed as Independent Non-Executive Director on 17 April 2015 and resigned as an Independent Non-Executive Director on 11 December 2015.
- (5) Sun Chengtong resigned as an Executive Director on 27 August 2015.

- (6) Jin Joe Xiaozhou was appointed as Executive Director on 27 August 2015.
- (7) Ding Xianggan was appointed as Independent Non-Executive Director on 11 December 2015.
- (8) 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.
- (9) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (10) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (11) During the year ended 31 December 2016, 1,600,000 (2015: 4,000,000) 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 30). Details of the share options scheme are set out in note 30 to the consolidated financial statements. The share-based payment represents the 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.

11. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2015: three) highest paid individuals were as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	2,512	1,791
Share based payment	1,639	2,877
Retirement benefit scheme contributions	<u>268</u>	<u>172</u>
	<u>4,419</u>	<u>4,840</u>

Their remuneration were within the following bands:

	2016	2015
	<i>No. of</i>	<i>No. of</i>
	<i>employees</i>	<i>employees</i>
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>2</u>
	<u>3</u>	<u>3</u>

During the year ended 31 December 2016, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 30 to the consolidated financial statements.

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.

12. DIVIDEND

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2015 final dividend - HK\$0.03		
(2015: 2014 final dividend - HK\$0.03) per share	<u>27,046</u>	<u>27,046</u>

Subsequent to the end of the reporting period, a final dividend of HK\$0.03 in respect of the year ended 31 December 2016 (2015: final dividend of HK\$0.03 in respect of the year ended 31 December 2015) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2016 of HK\$0.03 (2015: HK\$0.03) per share on 901,536,000 (2015: 901,536,000) shares	<u>27,046</u>	<u>27,046</u>

13. EARNING (LOSS) PER SHARE**For continuing and discontinued operations**

The calculation of the basic and diluted earning (loss) per share attributable to the owners of the Company are based on the profit (loss) for the year attributable to owners of the Company and on the number of shares as follows:

	2016	2015
	<i>'000</i>	<i>'000</i>
Number of shares		
Number of ordinary shares for the purpose of basic earning (loss) per share	901,536	901,536
Effect of dilutive potential ordinary shares arising from the outstanding share options	<u>1,462</u>	<u>448</u>
Weighted average number of ordinary shares for the purpose of dilutive earning (loss) per share	<u>902,998</u>	<u>901,984</u>

From continuing operations

The calculation of basic and diluted earning (loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
Profit (loss) is calculated as follows:		
Profit for the year attributable to the owners of the Company	59,893	6,994
Less: profit for the year from discontinued operations	<u>—</u>	<u>(22,896)</u>
Profit (loss) for the purposes of basic and diluted earning (loss) per share from continuing operations	<u>59,893</u>	<u>(15,902)</u>

The denominators used are the same as those detailed above for both basic and diluted earning (loss) per share.

From discontinued operations

For the year ended 31 December 2015, basic and diluted earning per share for the discontinued operation is HK2.54 cents per share based on the profit for the year from the discontinued operations of HK\$22,896,000 and the denominators are for both basic and diluted earning (loss) per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building	Leasehold improvements	Specialised equipment	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
At 1 January 2015	9,699	8,482	35,719	23,754	52,091	2,532	489,262	621,539
Additions	84,139	73,720	79	5,476	14,126	—	138,711	316,251
Disposals/written off	—	—	(23,165)	(9,510)	(5,754)	—	—	(38,429)
Disposals of businesses	—	—	(5,634)	(1,659)	(26,572)	(723)	—	(34,588)
Transfer from construction in progress	509,347	112,047	—	—	—	—	(621,394)	—
Transfer to investment properties	(210,271)	(64,982)	—	—	—	—	—	(275,253)
Exchange adjustments	(15,609)	(5,320)	(1,183)	(1,009)	(2,564)	(121)	(6,579)	(32,385)
At 31 December 2015	377,305	123,947	5,816	17,052	31,327	1,688	—	557,135
Additions	3,173	4,477	818	6,939	2,711	—	—	18,118
Disposals/written off	—	—	—	(1,234)	(689)	(505)	—	(2,428)
Transfer to investment properties	(126,435)	(39,013)	—	—	—	—	—	(165,448)
Exchange adjustments	(18,332)	(6,341)	(807)	(1,354)	(2,180)	(61)	—	(29,075)
At 31 December 2016	235,711	83,070	5,827	21,403	31,169	1,122	—	378,302
ACCUMULATED DEPRECIATION								
At 1 January 2015	973	7,189	31,114	9,634	49,068	1,112	—	99,090
Charge for the year	3,915	6,463	2,844	4,829	6,366	503	—	24,920
Eliminated on disposals/written off	—	—	(21,982)	(9,510)	(5,754)	—	—	(37,246)
Disposals of businesses	—	—	(5,634)	(1,583)	(24,081)	—	—	(31,298)
Exchange adjustments	(154)	(682)	(526)	(262)	(2,427)	(68)	—	(4,119)
At 31 December 2015	4,734	12,970	5,816	3,108	23,172	1,547	—	51,347
Charge for the year	8,064	12,277	569	5,859	2,672	120	—	29,561
Eliminated on disposals/ written off	—	—	—	(648)	(642)	(489)	—	(1,779)
Eliminated on transfer to investment properties	(3,898)	(5,208)	—	—	—	—	—	(9,106)
Exchange adjustments	(410)	(1,049)	(669)	(457)	(1,949)	(56)	—	(4,590)
At 31 December 2016	8,490	18,990	5,716	7,862	23,253	1,122	—	65,433
CARRYING VALUES								
At 31 December 2016	227,221	64,080	111	13,541	7,916	—	—	312,869
At 31 December 2015	372,571	110,977	—	13,944	8,155	141	—	505,788

During the year ended 31 December 2016, the transfers of leasehold land and building and leasehold improvements to investment property with carrying amount of HK\$156,342,000 (2015: HK\$275,253,000) is made when there is a change in use which is evidenced by commencement of an operating lease to a third party or related party. The fair value of these leasehold land and building and leasehold improvements at the date of transfer was HK\$190,187,000 (2015: HK\$313,389,000), resulting in recognition of surplus on revaluation of HK\$33,845,000 (2015: HK\$38,136,000) in other comprehensive income and accumulated in revaluation reserve.

The above items of property, plant and equipment other than construction in progress 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	4 - 10 years
Specialised equipment	20% - 25%
Machinery and equipment	10% - 20%
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 buildings elements, the leasehold interest in land continued to be accounted for as property, plant and equipment.

15. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2015 (restated)	21,900
Transfer from property, plant and equipment	313,389
Change in fair value of investment properties	2,168
Exchange adjustments	<u>(12,851)</u>
At 31 December 2015 (restated)	324,606
Transfer from property, plant and equipment	190,187
Change in fair value of investment properties	20,677
Exchange adjustments	<u>(28,902)</u>
At 31 December 2016	<u><u>506,568</u></u>

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 2016 was HK\$506,568,000 (2015: HK\$324,606,000). The fair value of the investment properties included the land components of the properties in Hong Kong and the PRC. The fair value has been arrived at based on a valuation carried out by Asset Appraisal Limited, independent valuers not connected with the Group.

Income capitalisation approach has been adopted for valuing the Group's investment properties located in the PRC. Key inputs used in valuing the investment properties in the PRC were term yield of 4.9% (2015: 4.5%), reversionary yield of 5.4% (2015: 5.0%) and monthly market rent of comparable properties per meter square which is ranged from RMB57.79 to RMB83.65 (2015: RMB54.75 to RMB74.52). For the valuation of the Group's investment properties located in the Hong Kong, comparative approach has been adopted by reference to recent market prices for similar properties in the similar locations and conditions of the investment properties, adjusted for differences in the nature, location and condition of the investment properties. There has been no change to the valuation technique during the year.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	At 31.12.2016		At 31.12.2015		At 1.1.2015	
	Level 3	Fair	Level 3	Fair	Level 3	Fair
	HK\$'000	value HK\$'000	HK\$'000	value HK\$'000	HK\$'000	value HK\$'000
Commercial property units located						
— Hong Kong	21,300	21,300	21,800	21,800	21,900	21,900
— PRC	485,268	485,268	302,806	302,806	—	—
	<u>506,568</u>	<u>506,568</u>	<u>324,606</u>	<u>324,606</u>	<u>21,900</u>	<u>21,900</u>

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, the PRC	Level 3	Income capitalisation approach Key inputs are: — Term yield — Reversionary yield — Market rent of comparable properties	Key and unobservable inputs are: — Term yield: 4.9% (2015: 4.5%) — reversionary yield 5.4% (2015: 5.0%) — Market rent of comparable properties, by taking accounts of the accessibility, size, locations and condition and environment of properties	— The higher the term yield and reversionary yield, the lower the fair value. — The higher the market rent, the higher the fair value.
Office premises located in Hong Kong	Level 3	Comparative approach Key input is recent market prices of comparable properties	Key and unobservable input is recent market price of comparable properties, by taking accounts of the accessibility, size, locations and condition and environment of properties	— The higher the market price, the higher the fair value.

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

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

16. PREPAID LEASE PAYMENTS

	2016 HK\$'000	2015 HK\$'000
Analysed for reporting purposes as:		
Current asset	818	874
Non-current asset	<u>32,447</u>	<u>35,564</u>
	<u>33,265</u>	<u>36,438</u>

At 31 December 2016, prepaid lease payments of HK\$19,460,000 (2015: HK\$12,910,000) is attributable to the investment property units located in the PRC.

17. OTHER INTANGIBLE ASSETS

	Registered software <i>HK\$'000</i>	Customers base <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1 January 2015	44,247	57,385	101,632
Disposals of businesses	(14,201)	—	(14,201)
Exchange adjustments	<u>43</u>	<u>—</u>	<u>43</u>
At 31 December 2015	30,089	57,385	87,474
Exchange adjustments	<u>(3,618)</u>	<u>—</u>	<u>(3,618)</u>
At 31 December 2016	<u>26,471</u>	<u>57,385</u>	<u>83,856</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2015	44,247	57,385	101,632
Disposals of businesses	(14,201)	—	(14,201)
Exchange adjustments	<u>43</u>	<u>—</u>	<u>43</u>
At 31 December 2015	30,089	57,385	87,474
Exchange adjustments	<u>(3,618)</u>	<u>—</u>	<u>(3,618)</u>
At 31 December 2016	<u>26,471</u>	<u>57,385</u>	<u>83,856</u>
CARRYING AMOUNTS			
At 31 December 2016	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2015	<u>—</u>	<u>—</u>	<u>—</u>

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

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

Registered software	5 years
Customers base	10 years

The intangible assets have been fully amortised as at the end of both reporting periods.

18. AVAILABLE-FOR-SALE INVESTMENT

The balance represents investment in unlisted equity securities issued by a private entity established in the PRC. At 31 December 2016 and 2015, the Group held 5.56% interest in Beijing Shenzhou Software Technology Limited which are principally engaged in software development.

They are measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

19. INTEREST IN AN ASSOCIATE

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment in an associate - unlisted	102,114	102,114
Share of post-acquisition profits and other comprehensive income, net of dividends received	<u>812</u>	<u>25,565</u>
	<u><u>102,926</u></u>	<u><u>127,679</u></u>

As at 31 December 2016 and 2015, the Group had interest in the following associate:

Name of entity	Form of business structure	Country of registration and operation	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Qingdao Lejin Inspur Digital Communication Limited# (“Qingdao Lejin”)	Sino-foreign owned enterprise (“SFOE”)	The PRC	30%	30%	Manufacturing and sale of wireless Global System for Communicates (“GSM”) mobile phones and value added software for mobile phones

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

Note: During the year ended 31 December 2016, the local tax authorities have completed a tax investigation to Qingdao Lejin in relation to the transfer pricing adjustment from 2008 to 2011. The local tax authorities have issued final tax notices stipulating transfer pricing adjustment for FY2008- FY2009 and FY2010- FY2011 amounting to RMB54.8 million (equivalent to HK\$68.2 million) and RMB109.9 million (equivalent to HK\$136.8 million), respectively, together with certain interest charges and Qingdao Lejin has recognised such provision of EIT. As advised by tax adviser of Qingdao Lejin, the directors of Qingdao Lejin are of the opinion that the amount of tax exposures for the subsequent years from 2012 to 2016 cannot be reasonably estimated at this stage as the tax investigation for subsequent years have not been started. As a result, no additional provision on EIT has been made for the subsequent years by Qingdao Lejin during the year ended 31 December 2016.

Summarised financial information of the associate

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

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	1,616,413	1,725,185
Non-current assets	169,845	210,341
Current liabilities	<u>(1,443,171)</u>	<u>(1,509,930)</u>
Revenue	<u>6,440,892</u>	<u>9,232,994</u>
Profit for the year	104,950	197,044
Other comprehensive expense for the year	<u>(24,690)</u>	<u>(29,677)</u>
Profit and total comprehensive income for the year	<u>80,260</u>	<u>167,367</u>
Dividend paid during the year	<u>162,771</u>	<u>60,570</u>

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

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets of Qingdao Lejin	343,087	425,596
Proportion of the Group's ownership interest in Qingdao Lejin	<u>30%</u>	<u>30%</u>
Group's share of net assets of an associate	<u>102,926</u>	<u>127,679</u>

20. INTEREST IN A JOINT VENTURE

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment in a joint venture - unlisted	185,266	185,266
Share of post-acquisition losses and other comprehensive expenses	<u>(54,092)</u>	<u>(19,242)</u>
	<u>131,174</u>	<u>166,024</u>

As at 31 December 2016 and 2015, 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") [#]	SFOE	The 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 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.

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	324,503	212,371
Non-current assets	353,764	395,403
Current liabilities	(237,836)	(103,552)
Non-current liabilities	<u>(8,355)</u>	<u>(6,100)</u>

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	<u>77,451</u>	<u>33,579</u>
Revenue	<u>380,945</u>	<u>211,496</u>
Loss for the year	(6,969)	(46,160)
Other comprehensive expense for the year	<u>(75,014)</u>	<u>(26,232)</u>
Loss and total comprehensive expense for the year	<u>(81,983)</u>	<u>(72,392)</u>
The above loss for the year includes the following:		
Depreciation and amortisation	20,834	33,367
Interest income	143	558
Income tax credit	<u>(46)</u>	<u>(2,117)</u>

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

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets attributable to owners of the Inspur Cloud	393,561	498,122
Proportion of the Group's ownership interest in Inspur Cloud	<u>33.33%</u>	<u>33.33%</u>
Carrying amount of the Group's interest in Inspur Cloud	<u>131,174</u>	<u>166,024</u>

21. INVENTORIES

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	271	66
Work in progress	164	174
Finished goods	<u>7,859</u>	<u>1,705</u>
	<u>8,294</u>	<u>1,945</u>

22. TRADE AND BILLS RECEIVABLES

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	189,204	169,420
Less: Allowance for bad and doubtful debts	<u>(28,420)</u>	<u>(53,222)</u>
	<u>160,784</u>	<u>116,198</u>

The Group allows a credit period of 30 to 210 days (2015: 30 to 210 days) to its customers. 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:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	97,110	29,525
31 to 60 days	10,118	5,874
61 to 90 days	4,051	6,862
91 to 120 days	4,114	19,356
121 to 180 days	8,675	6,937
Over 180 days	<u>36,716</u>	<u>47,644</u>
	<u>160,784</u>	<u>116,198</u>

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customers. Limits and scoring attributed to customers are reviewed periodically. 81% (2015: 60%) of the trade and bills receivables that are neither past due nor impaired have the best credit scoring under the credit scoring system used by the Group.

Included in the Group's trade and bills receivable balance are debtors with aggregate carrying amount of approximately HK\$6,725,000 (2015: HK\$13,900,000), which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 183 days (2015: 239 days).

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

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
121 - 180 days	—	3,787
Over 180 days	<u>6,725</u>	<u>10,113</u>
	<u><u>6,725</u></u>	<u><u>13,900</u></u>

Movement in the allowance for bad and doubtful debts

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of year	53,222	66,714
Allowances recognised on receivables	3,664	22,383
Disposals of business and subsidiaries	—	(27,932)
Written off as uncollectible	(12,328)	—
Reversal of allowance for bad and doubtful debts	(13,768)	(5,195)
Exchange adjustments	<u>(2,370)</u>	<u>(2,748)</u>
Balance at the end of year	<u><u>28,420</u></u>	<u><u>53,222</u></u>

There were no individually impaired trade receivables which had been under dispute included in the allowance for bad and doubtful debts at 31 December 2016 and 2015.

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

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less		
recognised losses	877,574	866,674
Less: Progress billings	<u>(1,020,109)</u>	<u>(958,459)</u>
	<u><u>(142,535)</u></u>	<u><u>(91,785)</u></u>
Analysed for reporting purposes as:		
Amounts due from contract customers	46,284	26,073
Amounts due to contract customers	<u>(188,819)</u>	<u>(117,858)</u>
	<u><u>(142,535)</u></u>	<u><u>(91,785)</u></u>

As at 31 December 2016, retentions held by customers for contract works amounted to HK\$501,000 (2015: HK\$7,937,000) included in prepayments, deposits and other receivables.

Advances received from customers for contract work amounted to HK\$149,635,000 (2015: HK\$126,759,000) included in other payables and accrued expenses. All amounts are expected to be realised within 12 months from the end of the reporting date.

The management assessed the recoverable amounts of the contract costs and determined that costs incurred for certain long outstanding contracts were impaired. Accordingly, impairment loss of HK\$8,954,000 (2015: HK\$6,651,000) was recognised in the year ended 31 December 2016.

24. ENTRUSTED LOAN RECEIVABLES

The Group entered into entrusted loan framework agreement on 21 March 2016 and 11 May 2016, pursuant to which the Group agreed to provide entrusted loan to Inspur Electronic Information Industry Co., Limited (“Inspur Electronic Information”), a fellow subsidiary of the Group, through a financial institution. The principal of entrusted loans receivable amounted to HK\$175,241,000 and HK\$163,558,000 were unsecured, interest bearing at 4.35% per annum and have been fully repaid during the year ended 31 December 2016.

The Group also entered into a supplementary agreement on 26 September 2016, pursuant to which the Group agreed to provide entrusted loans to Inspur Electronic Information. The principal of entrusted loan receivables amounted to HK\$167,507,000 and HK\$156,340,000 were unsecured, interest bearing at 4.35% per annum and matured in March and April 2017, respectively. As at 31 December 2016, interest receivables arising from the entrusted loan receivables were amounted to HK\$1,943,000 and HK\$1,152,000, respectively.

25. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carried interest at market rates which range from 0.01% to 1.15% (2015: 0.01% to 1.75%) per annum.

At 31 December 2016, pledged bank deposits represented deposits pledged to banks to secure bank acceptance bills and general banking facilities granted to the Group and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.55% to 1.35% (2015: 0.33% to 1.85%) per annum.

26. TRADE AND BILLS PAYABLES

Trade and bills payables principally comprise amounts outstanding for trade purposes and ongoing costs. The average credit period taken for trade purchases is 30 to 120 days (2015: 30 to 120 days).

The following is an aged analysis of trade and bills payables for the purchase of goods and services rendered presented based on the invoice date at the end of the reporting period.

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables		
0 - 30 days	55,032	36,613
31 - 60 days	3,624	16,609
61 - 90 days	3,633	3,095
Over 90 days	<u>33,895</u>	<u>77,847</u>
	<u>96,184</u>	<u>134,164</u>
27. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES		
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from related companies:		
Trading in nature		
Fellow subsidiaries	54,517	135,950
Ultimate holding company	<u>—</u>	<u>979</u>
	<u>54,517</u>	<u>136,929</u>
Non-trading in nature		
Fellow subsidiaries	3,942	7,883
Ultimate holding company	<u>295</u>	<u>187</u>
	<u>4,237</u>	<u>8,070</u>
Total amounts due from related companies	<u>58,754</u>	<u>144,999</u>
Analysed as:		
Amounts due from fellow subsidiaries	58,459	143,833
Amount due from ultimate holding company	<u>295</u>	<u>1,166</u>
Total amounts due from related companies	<u>58,754</u>	<u>144,999</u>

The Group allows an average trade credit period of 30 to 210 days (2015: 30 to 210 days) to its trade receivables due from its fellow subsidiaries and ultimate holding company.

The following is an aged analysis of trade receivables due from related companies presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	34,369	11,954
31 - 60 days	5,127	1,552
61 - 90 days	164	14,702
91 - 210 days	2,741	101,928
Over 210 days	<u>12,116</u>	<u>6,793</u>
	<u>54,517</u>	<u>136,929</u>

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

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

28. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trading in nature		
Fellow subsidiaries	9,017	4,056
Ultimate holding company	<u>—</u>	<u>239</u>
	<u>9,017</u>	<u>4,295</u>
Non-trading in nature		
Fellow subsidiaries	18,838	39,536
Ultimate holding company	<u>13,409</u>	<u>856</u>
	<u>32,247</u>	<u>40,392</u>
Total amounts due to related companies	<u><u>41,264</u></u>	<u><u>44,687</u></u>
Analysed as:		
Amounts due to fellow subsidiaries	27,855	43,592
Amount due to ultimate holding company	<u>13,409</u>	<u>1,095</u>
Total amounts due to related companies	<u><u>41,264</u></u>	<u><u>44,687</u></u>

The average credit period taken for trade purchases from related companies is 30 to 120 days (2015: 30 to 120 days). The following is an aged analysis of the amounts due to related companies which are trading in nature at the end of the reporting period.

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	2,201	3,727
31 to 60 days	5,693	—
61 to 90 days	236	—
Over 90 days	<u>887</u>	<u>568</u>
	<u><u>9,017</u></u>	<u><u>4,295</u></u>

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

29. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2016 '000	2015 '000	2016 HK\$'000	2015 HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>2,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid				
Ordinary shares of HK\$0.01 each	<u>901,536</u>	<u>901,536</u>	<u>9,015</u>	<u>9,015</u>

30. 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 2016, the number of shares available for issue and remained outstanding under the Option Schemes are 75,020,000 shares (2015: 46,420,000 shares) representing 8% (2015: 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 million must be approved in advance by the Company's shareholders in general meeting.

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

2010 Option

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

40% of the share options granted at 10 December 2010 are exercisable at date of grant; 40% of the share options are exercisable after 1 year from date of grant; the remaining 20% of the share option are exercisable after 2 years from the date of grant. All options will be vested on the first day of respective exercise period.

2015 Option

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

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

2016 Option

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

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

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

	2016 Option	2015 Option	2010 Option
Share price	HK\$1.34	HK\$1.67	HK\$3.41
Exercise price	HK\$1.34	HK\$1.71	HK\$3.41
Expected volatility	55.97%	58.76%	55.04%
Expected life	10 years	10 years	10 years
Risk-free rate	1.20%	1.83%	2.77%
Expected dividend yield	1.95%	1.8%	1.93%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 10 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Details of specific categories of options as at 31 December 2016 are as follows:

	Date of grant	Exercise period	Fair value	Exercise price HK\$
2010 Option	10 December 2010	10 December 2010 to 9 December 2020	0.38	3.41
	10 December 2010	10 December 2011 to 9 December 2020	0.38	3.41
	10 December 2010	10 December 2012 to 9 December 2020	0.38	3.41
2015 Option	16 July 2015	16 July 2015 to 15 July 2025	0.79	1.71
	16 July 2015	16 July 2016 to 15 July 2025	0.80	1.71
	16 July 2015	16 July 2017 to 15 July 2025	0.84	1.71
2016 Option	13 May 2016	13 May 2016 to 12 May 2026	0.61	1.34
	13 May 2016	13 May 2017 to 12 May 2026	0.62	1.34
	13 May 2016	13 May 2018 to 12 May 2026	0.64	1.34

The following table discloses details of the Company's share options held by directors and employees and movements in such holdings during the year ended 31 December 2016 and 2015:

Option type	Outstanding at and 1.1.2015	Granted during the year	Forfeited during the year	Outstanding at 31.12.2015	Granted during the year	Cancellation during the year	Outstanding at 31.12.2016
2010 Option	12,020,000	—	(5,600,000)	6,420,000	—	(1,400,000)	5,020,000
2015 Option	—	40,000,000	—	40,000,000	—	—	40,000,000
2016 Option	—	—	—	—	30,000,000	—	30,000,000
	<u>12,020,000</u>	<u>40,000,000</u>	<u>(5,600,000)</u>	<u>46,420,000</u>	<u>30,000,000</u>	<u>(1,400,000)</u>	<u>75,020,000</u>
Weighted average Exercise price (HK\$)	<u>3.41</u>	<u>1.71</u>	<u>3.41</u>	<u>1.95</u>	<u>1.34</u>	<u>3.41</u>	<u>1.68</u>

The number of share options exercisable at the end of reporting period was 75,020,000 (2015: 46,420,000).

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

Option type	Outstanding at 1.1.2015	Granted during the year	Forfeited during the year	Outstanding at 31.12.2015	Granted during the year	Outstanding at 31.12.2016
2010 Option	2,320,000	—	(800,000)	1,520,000	—	1,520,000
2015 Option	—	4,000,000	—	4,000,000	—	4,000,000
2016 Option	—	—	—	—	1,600,000	1,600,000
	<u>2,320,000</u>	<u>4,000,000</u>	<u>(800,000)</u>	<u>5,520,000</u>	<u>1,600,000</u>	<u>7,120,000</u>

The Group recognised the total expense of HK\$21,147,000 (2015: HK\$20,055,000) for the year ended 31 December 2016 in relation to share options granted by the Company.

31. DEFERRED INCOME - GOVERNMENT GRANT

Subsidiaries of the Company receive grants from the PRC Government for funding of some development projects which benefits the society as a whole. When the project is completed, the relevant PRC Government department will evaluate the quality of the results. The grants received are recognised as income when i) the related feasibility studies have been completed, ii) the approval of the relevant Government authority has been obtained and iii) no other future conditions are required to fulfil by the Group. If the subsidiaries of the Company are unable to fulfil all the conditions set out by the PRC Government department, the related grants would be returned to the PRC Government department.

The current portion of the deferred income - government grant represents grants received related to projects expected to be completed within one year from the end of the reporting period. For those related to projects more than one year will be included in non-current portion.

32. DEFERRED TAX LIABILITIES

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

	Withholding tax arising from PRC subsidiaries	Revaluation of investment properties	Other	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2015	20,619	—	—	20,619
(Credit) charge to profit or loss (note 8)	(2,961)	1,023	2,186	248
Charge to other comprehensive expense	—	3,694	—	3,694
Exchange adjustments	—	(193)	(91)	(284)
	<u>17,658</u>	<u>4,524</u>	<u>2,095</u>	<u>24,277</u>
At 31 December 2015 (restated)	17,658	4,524	2,095	24,277
(Credit) charge to profit or loss (note 8)	(3,739)	15,632	—	11,893
Charge to other comprehensive expense	—	7,653	—	7,653
Exchange adjustments	—	(1,318)	(135)	(1,453)
	<u>13,919</u>	<u>26,491</u>	<u>1,960</u>	<u>42,370</u>
At 31 December 2016	<u>13,919</u>	<u>26,491</u>	<u>1,960</u>	<u>42,370</u>

Note:

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\$410,374,000 (2015: HK\$375,147,000) 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.

33. 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, the Group will balance its overall capital structure through the payment of dividends and new share issues.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets		
Available-for-sale investment	20,067	21,454
Loans and receivables (including cash and cash equivalents)	<u>1,460,421</u>	<u>1,415,699</u>
Financial liabilities		
Amortised cost	<u>215,024</u>	<u>385,801</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, entrusted loan receivable, amounts due from ultimate holding company and fellow subsidiaries, pledged bank deposits and bank balances and cash, trade and bills payables, 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	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Relative to RMB:				
HK\$	8,194	161	—	—
Relative to HK\$:				
United States Dollars ("US\$")	54,160	81,837	—	—
Japanese Yen ("JPY")	—	1,623	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Sensitivity analysis

For the entities of which their functional currency is HK\$ while holding assets denominated in US\$, the directors consider that, as HK\$ is pegged to US\$, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of HK\$ against US\$ and hence only consider the sensitivity of the change in foreign exchange rate of HK\$ against currencies other than US\$. The sensitivity analysis includes only outstanding monetary items which are denominated in relevant foreign currencies and adjusts its translation at the year end for a 5% change in the relevant foreign currencies exchange rates. A positive number below indicates an increase/decrease in post-tax profit/post-tax loss 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/post-tax loss for the year and the balances below would be negative. 5% (2015: 5%) is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates.

	2016	2015
	HK\$'000	HK\$'000
Decrease in post-tax loss for the year		
HK\$ impact	307	6
JPY impact	—	61
	<u> </u>	<u> </u>

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate entrusted loan receivable. 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 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 50 basis points (2015: 50 basis points) increase or 50 basis points (2015: 50 basis points) decrease is used, which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2015: 50 basis points) higher or 50 basis points (2015: 50 basis points) lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would increase by HK\$3,268,000 (2015: post-tax loss would decrease by HK\$4,107,000) and decrease by HK\$3,268,000 (2015: post-tax loss would increase by HK\$4,107,000), respectively.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2016 and 2015 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 receivable, amounts due from ultimate holding company and fellow subsidiaries at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's trade and bills receivables as at 31 December 2016 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 has concentration of credit risk on trade receivables from ultimate holding company and certain fellow subsidiaries. The ultimate holding company and certain fellow subsidiaries are within software development and solution segment and located in PRC.

The Group's bank balances are deposited with banks with high credit ratings and the Group has limited exposure to any single financial institution.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains adequate cash and cash equivalents by continuously monitor forecast and actual cash flows and matching the maturity profiles of certain financial assets (including trade and bills receivables, entrusted loan receivable, amounts due from ultimate holding company and fellow subsidiaries, pledged bank deposits and bank balances and cash) and certain financial liabilities (including trade and bills payables, other payables and accrued expenses, amounts due to ultimate holding company and fellow subsidiaries).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment dates. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 6 months	6 months to 1 year	1 to 5 years	Total undiscounted cash flows	Total carrying amount at 31.12.2016
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2016							
Trade and bills payables	—	61,412	34,772	—	—	96,184	96,184
Other payables	—	45,677	31,663	236	—	77,576	77,576
Amount due to ultimate holding company	—	13,409	—	—	—	13,409	13,409
Amounts due to fellow subsidiaries	—	27,855	—	—	—	27,855	27,855
		<u>148,353</u>	<u>66,435</u>	<u>236</u>	<u>—</u>	<u>215,024</u>	<u>215,024</u>

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 6 months	6 months to 1 year	1 to 5 years	Total undiscounted cash flows	Total carrying amount at 31.12.2015
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2015							
Trade and bills payables	—	86,559	14,663	32,942	—	134,164	134,164
Other payables	—	206,950	—	—	—	206,950	206,950
Amount due to ultimate holding company	—	1,095	—	—	—	1,095	1,095
Amounts due to fellow subsidiaries	—	43,592	—	—	—	43,592	43,592
		<u>338,196</u>	<u>14,663</u>	<u>32,942</u>	<u>—</u>	<u>385,801</u>	<u>385,801</u>

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's assets are measured at fair value for financial reporting purposes. The management will determine the appropriate valuation techniques and inputs for fair value measurements.

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of the investment properties and share options. Notes 15 and 30 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of the investment property and share options.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosure are required).

The directors of the Company consider that the carrying amounts of these financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

35. DISCONTINUED OPERATIONS

On 10 April 2015, the Group entered into a share transfer agreement with Inspur Software Group Company Limited* 浪潮軟件集團有限公司 (“Inspur Software”) and Ambition Lead Limited (“Ambition”), which are wholly owned subsidiaries of IPG, pursuant to which the Group agreed to sell and Inspur Software and Ambition agreed to acquire the 100% equity interest of Inspur Communication Information System Limited* 浪潮通信信息系統有限公司 (“Inspur Communication”), a subsidiary of the Company engaged in Telecommunication Business, at the total cash consideration of RMB43,820,000 (equivalent to approximately HK\$54,775,000) (“Telecommunication Business Disposal”). The directors of the Company believe that the transaction is at arm's length taking into account of the assessment by First Shanghai Capital Limited, the independent financial advisor (the “IFA”) of the Group. The details of the disposal are set out in the circular issued by the Company dated 14 May 2015. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was completed on 31 May 2015, on which date control of Inspur Communication was passed to the acquirer.

On 9 July 2015, the Group entered into a disposal agreement with Inspur Software, pursuant to which the Group agreed to sell and Inspur Software agreed to acquire the Finance Business of the Group, at the cash consideration of RMB49,180,000 (equivalent to HK\$61,475,000) (“Finance Business Disposal”). The directors of the Company believe that the transaction is at arm's length taking into account of the assessment by the IFA of the Group. The details of the disposal are set out in the circular issued by the Company dated 5 August 2015. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was completed on 30 September 2015, on which date control of Finance Business was passed to the acquirer.

The loss for the year from discontinued Telecommunication Business and Finance Business is set out below.

	Year ended 31.12.2015 <i>HK\$'000</i>
Loss of Telecommunication Business and Finance Business for the year	(61,994)
Gain on disposals of Telecommunication Business and Finance Business (note 36)	84,890
	<u>22,896</u>

The results of the Telecommunication Business for the period from 1 January 2015 to 31 May 2015, and Finance Business for the period from 1 January 2015 to 30 September 2015, which have been included in the consolidated statement of profit or loss, were as follows:

	Year ended 31.12.2015 <i>HK\$'000</i>
Revenue	440,896
Cost of sales	(296,964)
Other income	15,996
Administrative expenses	(38,656)
Selling and distribution expenses	<u>(171,695)</u>
Loss before tax	(50,423)
Income tax expense	<u>(11,571)</u>
Loss for the year	<u>(61,994)</u>

Loss for the year ended 31 December 2015 from discontinued operations included the following:

	Year ended 31.12.2015
	<i>HK\$'000</i>
Allowance for bad and doubtful debts	18,747
Reversal of inventories	(10,193)
Reversal of allowance for bad and doubtful debts	(4,867)
Research and development costs recognised as expenses	1,001
Cost of inventories recognised as expense in the cost of sales (including write-down of inventories of HK\$10,193,000)	243,570
Depreciation for property, plant and equipment	1,451
Staff costs	148,692
Operating lease rentals in respect of office premises and staff quarter	<u>7,438</u>

Cash flows for the year ended 31 December 2015 from discontinued operations as follows:

	Year ended 31.12.2015
	<i>HK\$'000</i>
Net cash outflow from operating activities	(24,242)
Net cash outflow from investing activities	(61,468)
Net cash outflow from financing activities	<u>(110)</u>
Net cash outflows	<u>(85,820)</u>

The carrying amounts of the assets and liabilities of Telecommunication Business and Finance Business at date of disposal are disclosed in note 36.

36. DISPOSAL OF BUSINESSES

(a) Disposal of Inspur Communication

As referred to note 35, the Group discontinued its operations of Telecommunication Business at the time of disposal of Inspur Communication. The net assets of Inspur communication on the completion date of disposal, i.e. 31 May 2015, were as follows:

	<i>HK\$'000</i>
Consideration received:	
Cash received	<u>54,775</u>

31.5.2015

HK\$'000

Analysis of assets and liabilities over which control was lost:

Property, plant and equipment	2,237
Inventories	97
Trade and bills receivables	167,899
Prepayments, deposits and other receivables	9,663
Amounts due from customers for contract work	343
Amount due from ultimate holding company	34,586
Amounts due from fellow subsidiaries	108,671
Tax recoverable	1,190
Bank balances and cash	10,574
Trade and bills payables	(50,008)
Other payables and accrued liabilities	(48,671)
Deferred income - government grant	(17,045)
Amounts due to customers for contract work	(236,506)
Amounts due to fellow subsidiaries	<u>(11,660)</u>
Net liabilities disposal of	<u><u>(28,630)</u></u>

Gain on disposal of a subsidiary:

Total consideration	54,775
Net liabilities disposal of	<u>28,630</u>
	<u><u>83,405</u></u>

Net cash inflow arising on disposal:

Cash received	54,775
Less: bank balances and cash disposed of	<u>(10,574)</u>
	<u><u>44,201</u></u>

The impact of Inspur Communication on the Group's result and cash flows in the prior periods is disclosed in note 35.

(b) Disposal of Finance Business

As referred to in note 35, the Group discontinued its operations of Finance Business at the time of disposal of Finance Business. The net assets of Finance Business on the completion date of disposal, i.e. 30 September 2015, were as follows:

	<i>HK\$'000</i>
Consideration received:	
Cash received	<u>61,475</u>
	30.9.2015
	<i>HK\$'000</i>
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	1,053
Inventories	48,277
Bank balances and cash	<u>2,274</u>
Net assets disposal of	<u>51,604</u>
Gain on disposal of business:	
Total consideration	61,475
Less: net assets disposal of	(51,604)
Less: value-added tax expenses	<u>(8,386)</u>
	<u>1,485</u>
Net cash inflow arising on disposal:	
Cash received	61,475
Less: bank balances and cash disposed of	<u>(2,274)</u>
	<u>59,201</u>

The impact of Finance Business on the Group's result and cash flows in the prior periods is disclosed in note 35.

37. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the end of the reporting period, the Group had commitments for future minimum lease payments under operating leases in respect of rented premises which fall due as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	9,689	6,078
In the second to fifth years inclusive	<u>6,222</u>	<u>9,981</u>
	<u><u>15,911</u></u>	<u><u>16,059</u></u>

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\$32,487,000 (2015: HK\$3,821,000). The properties are expected to generate rental yields of 4.9% (2015: 4.5%) on an ongoing basis. 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:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>5,212</u>	<u>21,330</u>

38. RETIREMENT BENEFIT SCHEME

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 HK\$105,874,000 (2015: HK\$82,403,000).

39. RELATED PARTY TRANSACTIONS/BALANCES

Apart from the entrusted loan receivable, the amounts due from and to related parties as disclosed in notes 24, 27 and 28, respectively, the Group had entered into the following related party transactions during the year:

	Ultimate holding company		Fellow subsidiaries	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Sales of goods	<u>156</u>	<u>27,971</u>	<u>212,016</u>	<u>317,194</u>
Services income	<u>1,076</u>	<u>5,257</u>	<u>112,342</u>	<u>63,585</u>
Purchase of goods	<u>—</u>	<u>—</u>	<u>26,827</u>	<u>62,913</u>
Sales commission expenses	<u>11</u>	<u>332</u>	<u>3,117</u>	<u>3,618</u>
Property rental income	<u>5,004</u>	<u>2,172</u>	<u>21,336</u>	<u>2,715</u>
Property rental and management expenses	<u>—</u>	<u>1,412</u>	<u>11,643</u>	<u>10,463</u>
Interest income	<u>—</u>	<u>—</u>	<u>10,751</u>	<u>9,525</u>

- (a) During the year ended 31 December 2015, the Group disposed of Inspur Communication, a wholly owned subsidiary of the Group to Inspur Software and Ambition Lead Limited, fellow subsidiaries of the Company, for a cash consideration of RMB22,348,000 (equivalent to approximately HK\$27,935,000) and RMB21,472,000 (equivalent to approximately HK\$26,840,000), respectively.

During the year ended 31 December 2015, the Group disposed of the Finance Business to Inspur Software, a fellow subsidiary of the Company, for a cash consideration of RMB49,180,000 (equivalent to approximately HK\$61,475,000).

- (b) During the year ended 31 December 2016, certain operating lease rentals in respect of office premises and staff quarters amounted to HK\$4,674,000 (2015: HK\$8,895,000) 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 during the year are set out in note 10, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. CONTINGENT LIABILITIES

Other than the contingent liability of the associate disclosed in note 19 to the consolidated financial statements, the Group was also named as a defendant in a lawsuit filed for potential breach of contract with a supplier. The plaintiff has filed judicial claim against the Group and asked for damages of approximately HK\$9,551,000 (equivalent to approximately RMB8,000,000) in 2014. The Company vigorously defended this matter. The Group recognised a provision of HK\$5,372,000 (equivalent to approximately RMB4,500,000) which represents the best estimate and based on the legal advice in prior years. During the year ended 31 December 2016, the lawsuit has been finalised and conclusive and the total compensation of the breach of contract to suppliers was HK\$7,734,000 (equivalent to approximately RMB6,620,000) and the Group was recognised a provision for the remaining compensation amounted to HK\$2,477,000 (equivalent to approximately RMB2,120,000).

41. OTHER COMMITMENT

On 20 December 2016, a wholly owned subsidiary of the Company (the “Purchaser”) and an associate of Inspur Group Limited (the “Vendor”), a controlling shareholder of the Company have entered into an agreement, pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire 100% equity interest of Heilongjiang Inspur Yunhai Technology Company Limited (the “Target Company”), a company incorporated in the PRC and is a wholly-owned subsidiary of the Vendor. The consideration payable by the Purchaser to the Vendor for the acquisition should be equal to the audited net assets value of the Vendor for the year ended 31 December 2016 but in any event should be no more than RMB8,000,000 (equivalent to approximately HK\$9,040,000). Upon the completion of the Acquisition, the Target Company becomes an indirect wholly owned subsidiary of the Company. As at 31 December 2016, the acquisition is still in progress and such acquisition commitment has been contracted for but not provided in the consolidated financial statements.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the material principal subsidiaries of the Company at 31 December 2016 and 2015 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
				2016	2015	2016		2015		
						Directly	Indirectly	Directly	Indirectly	
Inspur Shandong Electronics	Wholly foreign owned enterprises ("WFOE")	PRC	Capital contribution	US\$90,675,000	US\$90,675,000	—	100%	—	100%	Investment holding
Jinan Qiyi Information Technology Limited#	Sino-foreign owned enterprise ("SFOE")	PRC	Capital contribution	RMB5,000,000	RMB5,000,000	—	100%	—	100%	Investment holding
Inspur Worldwide (Shandong) Service Limited	WFOE	PRC	Capital contribution	US\$2,317,300	US\$2,317,300	—	100%	—	100%	Provision of outsourcing software development services and trading of computer products
Inspur Genersoft	Domestic limited liability company ("DLLC")	PRC	Capital contribution	RMB100,000,000	RMB100,000,000	—	100%	—	100%	Software development
Inspur Financial System	DLLC	PRC	Capital contribution	RMB10,000,000	RMB10,000,000	—	100%	—	100%	Software development
Shandong Inspur Genersoft Information Technology Limited	DLLC	PRC	Capital contribution	RMB18,000,000	RMB18,000,000	—	100%	—	100%	Software development
Shandong Inspur Financial Software Information Limited	DLLC	PRC	Capital contribution	RMB35,000,000	RMB35,000,000	—	85.7%	—	85.7%	Software development
Inspur (HK) Cloud Service Limited	Incorporated	HK	Ordinary	HK\$10,140	HK\$10,140	—	100%	—	100%	Dormant
Jinan Inspur Mingda Information Technology Limited	DLLC	PRC	Capital contribution	RMB200,000,000	RMB200,000,000	—	100%	—	100%	Holding of investment property

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

The above list includes the subsidiaries of the Company which, in the opinion of the directors, 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, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position

	At 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Interests in subsidiaries	<u>760,512</u>	<u>755,263</u>
Current assets		
Amounts due from subsidiaries	459,189	521,868
Amount due from fellow subsidiary	1	—
Other current assets	161	163
Bank balances	<u>308</u>	<u>1,438</u>
	<u>459,659</u>	<u>523,469</u>
Current liabilities		
Other payables	8,211	8,302
Amounts due to subsidiaries	<u>189,603</u>	<u>201,100</u>
	<u>197,814</u>	<u>209,402</u>
Net current assets	<u>261,845</u>	<u>314,067</u>
Total assets less current liabilities	<u><u>1,022,357</u></u>	<u><u>1,069,330</u></u>
Capital and reserves		
Share capital (note 29)	9,015	9,015
Reserves	<u>1,013,342</u>	<u>1,060,315</u>
	<u><u>1,022,357</u></u>	<u><u>1,069,330</u></u>

Movement in the Company's reserves

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Other reserves HK\$'000	Total HK\$'000
At 1 January 2015	9,015	953,077	22,623	107,772	71,867	(6,739)	1,157,615
Loss for the year and total comprehensive expense	—	—	—	(53,960)	(27,334)	—	(81,294)
Dividend paid (note 12)	—	—	—	—	(27,046)	—	(27,046)
Forfeitures of share options (note 30)	—	—	(2,128)	—	2,128	—	—
Recognition of equity-settled share based payment (note 30)	—	—	20,055	—	—	—	20,055
At 31 December 2015	9,015	953,077	40,550	53,812	19,615	(6,739)	1,069,330
Loss for the year and total comprehensive expense	—	—	—	(13,579)	(27,495)	—	(41,074)
Dividend paid (note 12)	—	—	—	—	(27,046)	—	(27,046)
Cancellation of share options (note 30)	—	—	(527)	—	527	—	—
Recognition of equity-settled share based payment (note 30)	—	—	21,147	—	—	—	21,147
At 31 December 2016	<u>9,015</u>	<u>953,077</u>	<u>61,170</u>	<u>40,233</u>	<u>(34,399)</u>	<u>(6,739)</u>	<u>1,022,357</u>

3. MATERIAL CHANGE

Save as disclosed in the interim report of the Company for the six months ended 30 June 2017 (“1H2017”) including that,

- (i) Increase in fair value of investment properties of the Group for 1H2017 was approximately HK\$5.5 million, representing an increase of approximately 80.4% from that of approximately HK\$3.1 million for the six months ended 30 June 2016 (“1H2016”). Such increase was mainly due to the increase in leasing area of the aforesaid investment properties rented out for 1H2017 when compared to that for 1H2016;

- (ii) *Share of profit of associates of the Group for 1H2017 was approximately HK\$10.4 million, representing an increase of approximately 33.3% from that of approximately HK\$7.8 million for 1H2016. Such increase was mainly contributed by the increase in profit generated by the Company's associated company, namely Qingdao Lejin Inspur Digital Communication Limited* (青島樂金浪潮數字通信有限公司) ("Qingdao Lejin") for 1H2017;*
- (iii) *Loss for the period attributable to owners of the Company for 1H2017 was approximately HK\$ 12.6 million, representing an increase of approximately 144.0% from that of approximately HK\$ 5.2 million as compared with that for 1H2016. Such increase were mainly resulted by (i) the selling and distribution cost increased HK\$ 7.0 million because of the aggressive market expansion and sales channel promotion of the Group; and (ii) administration expenses and research and development costs increased by approximately HKD9.3 million, as compared with that for 1H2016;*
- (iv) *Interests in associate of the Group as at 30 June 2017 increased by approximately 23.7% as compared with that as at 31 December 2016, which was mainly resulted by the increase in net assets of Qingdao Lejin contributed by the increase in its profit generated for during the period;*
- (v) *Inventories of the Group as at 30 June 2017 increased by approximately 68.3% as compared with that as at 31 December 2016, which was mainly resulted by the additional purchase of hardware by the Group to cope with the increase in customer contracts on hand for 1H2017;*
- (vi) *Amounts due from customers for contract work of the Group as at 30 June 2017 increased by approximately 65.4% as compared with that as at 31 December 2016, which was mainly resulted by the increase in the contract amount in relation to the sale of software development and solution due to provision of new software and services for 1H2017;*
- (vii) *Entrusted loan receivable of the Group as at 30 June 2017 was nil as compared with that in the amount of approximately HK\$326.94 million as at 31 December 2016, which was resulted by the full repayment of entrusted loans due from a fellow subsidiary of the Group;*
- (viii) *Amount due from fellow subsidiaries of the Group as at 30 June 2017 increased by approximately 144.9% as compared with that as at 31 December 2016, which was mainly resulted by the increase in contract amount from fellow subsidiaries of the Group in relation to the sale of software development and solution due to provision of new software and services for 1H2017;*
- (ix) *Pledged bank deposits of the Group as at 30 June 2017 decreased by approximately 44.1% as compared with that as at 31 December 2016, which was mainly resulted by the return of pledged bank deposits to the Group as the Group completed the bidding for certain projects relating to software development and solution which required bank guarantees;*
- (x) *Bank balances and cash of the Group as at 30 June 2017 increased by approximately 20.3% as compared with that as at 31 December 2016, which was mainly resulted by the reason as discussed in (vii) above;*

- (xi) Amounts due to ultimate holding company of the Group as at 30 June 2017 decreased by approximately 79.1% as compared with that as at 31 December 2016, which was mainly resulted by the repayment of amount due by the Group on maturity;
- (xii) Deferred income-government grant of the Group as at 30 June 2017 increased by approximately 20.3% as compared with that as at 31 December 2016, which was mainly resulted by the increase in PRC government grant received as certain research and development of the Group further met the conditions imposed by the PRC government for 1H2017; and
- (xiii) On 9 May 2017, Inspur Common Software Co., Ltd.* (浪潮通用軟件有限公司) (“Party C”), a wholly-owned subsidiary of the Company, entered into the joint venture agreement (the “JV Agreement”) with Inspur Group Limited* (浪潮集團有限公司) (“Party A”), a controlling shareholder of the Company, and Inspur Software Co., Ltd.* (浪潮軟件股份有限公司) (“Party B”), an associate of Party A, in relation to the establishment of a joint venture company in the PRC (the “Joint Venture Company”). Pursuant to the JV Agreement, the registered capital of the Joint Venture Company amounts to RMB1,000,000,000, to which Party A will contribute RMB600,000,000, representing 60% of the registered capital; Party B will contribute RMB200,000,000, representing 20% of the registered capital; and Party C will contribute RMB200,000,000, representing 20% of the registered capital. As at the Latest Practicable Date, the transactions contemplated thereunder the JV Agreement had not been completed yet.

the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

4. INDEBTEDNESS STATEMENT

Debts and Borrowings

As at the close of business on 31 August 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Composite Document, the Group did not have any outstanding mortgages, charges, debenture, loan capital issued and outstanding or agreed to be issued, bank loan and overdraft or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantee or other material contingent liabilities.

Contingent liabilities

As at the Latest Practicable Date, the Group had no material contingent liabilities.

Disclaimer

Save as otherwise disclosed in this circular, the Group did not, as at the Latest Practicable Date, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 July 2017 of the property interests held by the Group



Asset Appraisal Limited
中誠達資產評值顧問有限公司

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Date: 7 September 2017

The Board of Directors
Inspur International Limited

Flat B&C, 30/F, Tower A
Billion Centre
1 Wang Kwong Road
Kowloon Bay Kowloon

Dear Sirs,

Re: Valuation of Unit B on 30th Floor of Tower A, Billion Centre, Wang Kwong Road, Kowloon, Hong Kong and Inspur Building situated at the north of Jingshi Road and at the east of Aotizhong Road, Jinan City, Shandong Province, the People's Republic of China (the "PRC")

In accordance with the instructions from **Inspur International Limited** (the "Company") to value the property interests (the "Properties") held by the Company or its subsidiaries (altogether referred to as the "Group") situated in Jinan City, Shandong Province, the PRC or in Hong Kong, we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at **31 July 2017** (the "**date of valuation**").

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding title to the Properties. However, we have not verified ownership of the Properties and to ascertain any amendment which may not appear on the copies handed to us.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Commerce & Finance Law Offices 通商律師事務所 (the “PRC Legal Opinion”), to the Company on the relevant laws and regulations in the PRC.

VALUATION METHODOLOGY

In valuing the Properties, we have adopted the Market Approach by making use of the Comparison Method where comparison based on price information of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market values.

As confirmed by the PRC Legal Advisor to the Group, property numbered 1 and 2 are restricted for technological research uses where no active market of this property type can be identified at the subject locality, they have been valued by the income capitalization method by which market value of the property is determined by capitalizing the net rental incomes generated by the property from the existing tenancies with due provision for the reversionary potential of the property.

ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the Properties on the market in their existing states without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Properties.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in holding it. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The properties in the PRC were last inspected by Zhou Tong, who is a registered PRC Real Estate Appraiser, on 7 August 2017. The property in Hong Kong was last inspected by Tse Wai Leung, who is a registered professional surveyor in Hong Kong, a professional member of the Royal Institution of Chartered Surveyors and a professional member of the Hong Kong Institute of Surveyors, on 28 July 2017. Both of them are in-house valuers of Asset Appraisal Limited. We have

inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

The market value estimate contained within this report specifically excludes the impact of environmental contamination resulting from earthquakes or other causes. It is recommended that the reader of this report consult a qualified environmental auditor for the evaluation of possible environmental defects, the existence of which could have a material impact on market value.

No soil analysis or geological studies were ordered or made in conjunction with this report, nor were any water, oil, gas, or other subsurface minerals use rights or conditions investigated.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

For the Properties located in the PRC under Group I to Group II, we have been advised by the Group that the potential tax liabilities include Land Appreciation Tax at progressive tax rates from 30% to 60%, Business Tax at 5% of sales amount, related surcharge at 11% of Business Tax, and Income Tax at 25% on profit before tax. The likelihood of the relevant tax liability (arising from the disposal of the Properties at consideration equal to the valuation amount) being crystallized is remote as the Group has no detail planning for the disposal of such properties yet.

In valuing the Properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars (HK\$). For currency conversion, an exchange rate of HK\$1 to RMB0.8616 has been adopted.

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited
Sandra Lau
MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Market value of the Property in existing state as at 31 July 2017
Group I — Property Interests held for self occupation	
1. Basement Level, Level 1 to 3, 14 to 17, 20, 26, 32, 34 and 34A, Inspur Building situated at the north of Jingshi Road and the east of Aotizhong Road, Jinan city, Shandong Province, the PRC.	HK\$357,500,000
Sub-Total:	<u>HK\$357,500,000</u>
Group II — Property Interests held for investment	
2. Level 4 to 13, 18, 19, 21 to 25, 27, 28, 29 to 31 and 33 Inspur Building situated at the north of Jingshi Road and the east of Aotizhong Road, Jinan city, Shandong Province, the PRC.	HK\$512,100,000
3. Unit B on 30th Floor of Tower A, Billion Centre, No.1 Wang Kwong Road, Kowloon, Hong Kong	HK\$21,980,000
Sub-Total:	<u>HK\$534,080,000</u>
Grand Total:	<u>HK\$891,580,000</u>

VALUATION CERTIFICATE

Group I — Property Interests held for self occupation

Property	Description and Tenure	Particulars of occupancy	Market Value of the Property in existing state as at 31 July 2017
1. Basement Level, Level 1 to 4, 14 to 17, 20, 26, 32, 34 and 34A, Inspur Building situated at the north of Jingshi Road and the east of Aotizhong Road, Jinan city, Shandong Province, the PRC. (山東省濟南市經十路以北、奧體中路以東浪潮大廈)	<p>Inspur Building is a 38-storey (inclusive of 4 basement levels) building erected on a land parcel with an area of 17,159.4 square metres and is designated for technological research uses. The building was completed in 2014.</p> <p>The property comprises various floor levels within the subject building with a total gross floor area of a parcel of research land with an area of 30,864.29 square metres and a total of 155 car parking spaces on Basement Level 2 to 4.</p> <p>The land use rights of the property have been granted for a term expiring on 28 June 2057 for research use.</p>	The property is either owner-occupied or vacant.	HK\$357,500,000

Notes:

- (1) As revealed by a Real Estate Ownership Certificate (不動產權證書, Ref No. Lu (2016) Jinan Shi Bu Dong Chan Quan No.0023240) dated 11 March 2016, the land use rights with an area of 17,159.4 square metres and building ownership with a gross floor area of 102,909.50 square metres of the subject development are held by Jinan Inspur Minda Information Technology Limited (濟南浪潮銘達資訊科技有限公司, “Minda Information”) (a wholly-owned subsidiary of the Company) for a term expiring on 28 June 2057 for research and residential use.
- (2) Opinion of the PRC legal advisers on the property is summarized as follows:
- (2.1) Pursuant to a Land Use Right Transfer Agreement entered into between Inspur Group Co., Ltd. and Inspur Minda on 29 August 2012, the former party agreed to transfer the subject land parcel located in No. 1036 Langchao Road, Jinan City which forms part of a large tract of development land with an area of 185,123.8 square metres held by Inspur Group Co., Ltd. via a Land Use Right Certificate (Ref Gao Xin Guo Yong 2012 No. 0100034) to the latter party. The subject land parcel has an area of 17,159.4 square metres designated for technological research use. The remaining Land Use Rights is 45 years, with a land use right term commencing on 14 May 2012 and expiring on 28 June 2057. The subject land parcel was transferred at a consideration of RMB1,865 per square meter, a total of RMB32,000,000 which was settled in by Inspur Minda on 5 September 2012 and 27 December 2012. Subsequently, Inspur Minda was issued a Land Use Right Certificate (Ref Gao Xin Guo Yong 2013 No. 0100001) by Jinan City State-owned Land Resources Administrative Bureau of the subject land parcel on 24 January 2013.
- (2.2) On 27 October 2005, Inspur Group Co., Ltd. was issued by the Jinan City Town Planning Bureau (濟南市規劃局) a Construction Land Use Planning Permit (建設用地規劃許可證, Ref No.: [2005] Lu 01-01-193) with the name of the project known as “Technology Park (科技園)”. On 27 February 2013, with the consent and approval of the Jinan City Town Planning Bureau, the name of party undertaken the project construction as stated in the aforesaid as Construction Land Use Planning Permit was changed from Inspur Group Co., Ltd. to Inspur Minda.

- (2.3) On 7 June 2012, Inspur Group Co., Ltd. was issued by the Jinan City Town Planning Bureau a Construction Work Planning Permit (建設工程規劃許可證, Ref Jian Zi No. 370101201200116) with the name of the construction project known as “New Construction of Inspur Technology Park S01 Research Building (新建浪潮科技園S01科研樓)”. The approved gross floor area of the construction project is 114,452 square metres including superstructure of 77,280 square metres and substructure of 37,172 square metres.
- (2.4) On 7 March 2013, Minda Information was issued by the Jinan City High and New Technology Development Zone Administrative Committee Construction Bureau (濟南高新技術開發區管委會建設局) a Construction Work Undertaking Permit (建築工程施工許可證, Ref [2013] Ji Gao Jian Si Zi No. 13-07).
- (2.5) On 22 November 2014, Minda Information obtained a Construction Work Completion Examination Report of the subject development namely Inspur Technology Park S01 Research Building (浪潮科技園S01科研樓) with a total gross floor area of 114,452 square metres.
- (2.6) On 4 November 2015, the Jinan City High and New Technology Development Zone Administrative Committee Construction Bureau issued a Memorandum on Construction Work Completion Examination (房屋建築工程竣工驗收備案單) to Minda Information regarding the subject development namely Inspur Technology Park S01 Research Building (浪潮科技園S01科研樓) with a total gross floor area of 114,452 square metres.
- (2.7) On 11 March 2016, the Jinan City State-owned Land Resources Administrative Bureau issued the Real Estate Ownership Certificate (不動產權證書, Ref Lu [2016] Jinan Shi Bu動產Quan No.0023240).
- (2.8) Based on due investigation performed by the PRC lawyer, as at the date of the PRC Legal Opinion, Minda Information has legally obtained the land use right certificate and the building ownership rights certificate and its land use rights and building ownership rights in the property were legal and valid. Furthermore, the Property was not subject to mortgage and closure order. Minda Information is entitled to possess, use, transfer, lease or mortgage the property throughout the unexpired term of its land use rights.
- (2.9) Besides, (1) according to relevant law and regulations, the leasing of the property by Minda Information should oblige the permitted use of technological research as stated in the title documents and it is forbidden to use the property for any commercial uses other than technological research. (2) According to the opinion of the Jinan Housing and Property Administrative Bureau (濟南市住房保障和房屋管理局), it does not accept any application for stratification of title to enbloc technological research building at the time being and any transfer of this kind of buildings can only be proceeded on enbloc basis. Also, the transferees of this kind of buildings should be eligible entities under the standard criteria applicable to technological research land use. (3) According to the Article 18 of the Price Law (價格法), the rental of the property is not bounded by any Government regulated price or controlled price range.

VALUATION CERTIFICATE

Group II — Property Interests held for investment

Property	Description and Tenure	Particulars of occupancy	Market Value of the Property in existing state as at 31 July 2017
2. Level 5 to 13, 18, 19, 21 to 25, 27 to 31 and 33 Inspur Building situated at the north of Jingshi Road and the east of Aotizhong Road, Jinan city, Shandong Province, the PRC.	<p>Inspur Building is a 38-storey (inclusive of 4 basement levels) building erected on a land parcel with an area of 17,159.4 square metres and is designated for technological research uses. The building was completed in 2014.</p> <p>The property comprises various floor levels within the subject building with a total gross floor area of a parcel of research land with an area of 44,081.85 square metres and a total of 221 car parking spaces on Basement Level 2 to 4.</p> <p>The land use rights of the property have been granted for a term expiring on 28 June 2057 for research use.</p>	<p>Save for a portion on Level 19 with a gross floor area of 1,050.38 square metres and Level 6 with a gross floor area of 1254.31 which are currently vacant, the property is subject to various individual tenancy agreements all expiring on 31 December 2017 at a total monthly rent of approximately RMB2,170,000.</p>	HK\$512,100,000

Notes:

- (1) As revealed by a Real Estate Ownership Certificate (不動產權證書, Ref No. Lu (2016) Jinan Shi Bu Dong Chan Quan No.0023240) dated 11 March 2016, the land use rights with an area of 17,159.4 square metres and building ownership with a gross floor area of 102,909.50 square metres of the subject development are held by Inspur Minda for a term expiring on 28 June 2057 for research and residential use.
- (2) Opinion of the PRC Lawyer on the property is summarized as follows:
 - (2.1) Pursuant to a Land Use Right Transfer Agreement entered into between Inspur Group Co., Ltd. and Inspur Minda on 29 August 2012, the former party agreed to transfer the subject land parcel located in No. 1036 Langchao Road, Jinan City which forms part of a large tract of development land with an area of 185,123.8 square metres held by Inspur Group Co., Ltd. via a Land Use Right Certificate (Ref Gao Xin Guo Yong 2012 No. 0100034) to the latter party. The subject land parcel has an area of 17,159.4 square metres designated for technological research use. The remaining Land Use Rights is 45 years, with a land use right term commencing on 14 May 2012 and expiring on 28 June 2057. The subject land parcel was transferred at a consideration of RMB1,865 per square meter, a total of RMB32,000,000 which was settled in by Inspur Minda on 5 September 2012 and 27 December 2012. Subsequently, Inspur Minda was issued a Land Use Right Certificate (Ref Gao Xin Guo Yong 2013 No. 0100001) by Jinan City State-owned Land Resources Administrative Bureau of the subject land parcel on 24 January 2013.

- (2.2) On 27 October 2005, Inspur Group Co., Ltd. was issued by the Jinan City Town Planning Bureau (濟南市規劃局) a Construction Land Use Planning Permit (建設用地規劃許可證, Ref No.: [2005] Lu 01-01-193) with the name of the project known as “Technology Park (科技園)”. On 27 February 2013, with the consent and approval of the Jinan City Town Planning Bureau, the name of party undertaken the project construction as stated in the aforesaid as Construction Land Use Planning Permit was changed from Inspur Group Co., Ltd. To Inspur Minda.
- (2.3) On 7 June 2012, Inspur Group Co., Ltd. was issued by the Jinan City Town Planning Bureau a Construction Work Planning Permit (建設工程規劃許可證, Ref Jian Zi No. 370101201200116) with the name of the construction project known as “New Construction of Inspur Technology Park S01 Research Building (新建浪潮科技園S01科研樓)”. The approved gross floor area of the construction project is 114,452 square metres including superstructure of 77,280 square metres and substructure of 37,172 square metres.
- (2.4) On 7 March 2013, Minda Information was issued by the Jinan City High and New Technology Development Zone Administrative Committee Construction Bureau (濟南高新技術開發區管委會建設局) a Construction Work Undertaking Permit (建築工程施工許可證, Ref [2013] Ji Gao Jian Si Zi No. 13-07).
- (2.5) On 22 November 2014, Minda Information obtained a Construction Work Completion Examination Report of the subject development namely Inspur Technology Park S01 Research Building (浪潮科技園S01科研樓) with a total gross floor area of 114,452 square metres.
- (2.6) On 4 November 2015, the Jinan City High and New Technology Development Zone Administrative Committee Construction Bureau issued a Memorandum on Construction Work Completion Examination (房屋建築工程竣工驗收備案單) to Minda Information regarding the subject development namely Inspur Technology Park S01 Research Building (浪潮科技園S01科研樓) with a total gross floor area of 114,452 square metres.
- (2.7) On 11 March 2016, the Jinan City State-owned Land Resources Administrative Bureau issued the Real Estate Ownership Certificate (不動產權證書, Ref Lu [2016] Jinan Shi Bu動產Quan No.0023240).
- (2.8) Based on due investigation performed by the PRC lawyer, as at the date of the PRC Legal Opinion, Minda Information has legally obtained the land use right certificate and the building ownership rights certificate and its land use rights and building ownership rights in the property were legal and valid. Furthermore, the Property was not subject to mortgage and closure order. Minda Information is entitled to possess, use, transfer, lease or mortgage the property throughout the unexpired term of its land use rights.
- (2.9) Besides, (1) according to relevant law and regulations, the leasing of the property by Minda Information should oblige the permitted use of technological research as stated in the title documents and it is forbidden to use the property for any commercial uses other than technological research. (2) According to the opinion of the Jinan Housing and Property Administrative Bureau (濟南市住房保障和房屋管理局), it does not accept any application for stratification of title to enbloc technological research building at the time being and any transfer of this kind of buildings can only be proceeded on enbloc basis. Also, the transferees of this kind of buildings should be eligible entities under the standard criteria applicable to technological research land use. (3) According to the Article 18 of the Price Law (價格法), the rental of the property is not bounded by any Government regulated price or controlled price range.

VALUATION CERTIFICATE

Group II — Property Interests held for investment

Property	Description and Tenure	Particulars of occupancy	Market Value of the Property in existing state as at 31 July 2017
3. Unit B on 30th Floor of Tower A Billion Centre, No.1 Wang Kwong Road Kowloon Hong Kong 214/70,000th share of and in the Remaining Portion of New Kowloon Inland Lot No.5925.	<p>The property comprises an office unit on 30th floor of a 26-storey office tower surmounted on a 4-storey car parking podium completed in about 2009.</p> <p>The gross floor area and saleable area of the property is approximately 2,146 and 1,506 square feet respectively.</p> <p>The property is held under Conditions of Sale No.UB11579 for a term of 99 years commencing on 1 July 1898..</p>	<p>The property is subject to a tenancy for a term commencing on 3 July 2016 and expiring on 2 July 2017 renewable for a term of 1 year at a monthly rent of HK\$53,700 exclusive of government rent, rate and management fee.</p>	HK\$21,980,000

Notes:

- (1) The registered owner of the property is Timeone Technology Limited (a wholly-owned subsidiary of the Company) registered vide memorial no. 13011802430025 dated 28 December 2012.
- (2) Occupation Permit No. KN21/2009 (OP) of the property was registered vide memorial no. 09082000730290 dated 13 August 2009.
- (3) Certificate of Compliance of the property was registered vide memorial no. 09093000900103 dated 23 September 2009.
- (4) Memorandum of Designation of Name was registered vide memorial no. 09093000900113 dated 25 September 2009.
- (5) Deed of Mutual Covenant with Plans of the property was registered vide memorial no. 09111600690029 dated 20 October 2009.
- (6) Sub-Deed of Mutual Covenant with Plan of the property was registered vide memorial no. 0911230248041 dated 27 October 2009.
- (7) The property is falling within an area currently zoned Other specified Uses (business) in the town planning. All new buildings within the other specified Uses (business) zoned areas.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offers, the Offeror and the Group.

The issue of this Composite Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and its Concert Parties and the terms and conditions of the Offers) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and its Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The issue of this Composite Document has been approved by the sole director of the Offeror and the directors of Inspur Software Group, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Group or the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised Shares</i> —	
2,000,000,000 Shares of HK\$0.01 each	<u>20,000,000</u>
<i>Issued and fully paid Shares</i>	
952,736,331 Shares of HK\$0.01 each	<u>9,527,363.31</u>

All issued Shares rank equally in all respect, including in particular as to dividend, voting rights and return on capital.

The Shares are listed and traded on the Main Board of the Stock Exchange. None of the Shares is listed, or dealt in, on other stock exchange, nor is any listing of or permission to deal in Shares being, or proposed to be, sought on any other stock exchange.

The Company has issued 51,200,000 Shares since 31 December 2016, being the date to which the latest audited financial statements of the Company were made up, up to the Latest Practicable Date. The aforesaid Shares were issued on 31 August 2017 to certain option holders upon exercise of their Options.

The Company has 43,820,000 outstanding Options granted under the Share Option Scheme as at the Latest Practicable Date.

As at the Latest Practicable Date, save as disclosed above the Company had no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares.

3. MARKET PRICES

The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) 30 July 2017, being the last trading day immediately preceding the date of the Announcement; (iii) the Last Trading Day; and (iv) the Latest Practicable Date on which trading of the Shares took place:

Date	Closing price of Shares (HK\$)
28 February 2017	1.76
31 March 2017	1.69
28 April 2017	1.61
31 May 2017	1.58
30 June 2017	1.65
28 July 2017 (the Last Trading Day)	1.75
31 August 2017	2.10
Latest Practicable Date	2.09

Note: Trading of the Shares was suspended from 9:00 a.m. on 31 July 2017 to 9:00 a.m. on 4 August 2017 and from 1 p.m. on 22 August 2017 to 9:00 a.m. on 24 August 2017.

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$2.10 per Share on 31 August 2017 and HK\$1.55 per Share on 5 June 2017 respectively.

4. DISCLOSURE OF INTERESTS

(a) Interests of the Offeror and its Concert Parties in the Company

As at the Latest Practicable Date, the Offeror and its Concert Parties held a total of 375,624,000 Shares representing approximately 39.43% of the issued share capital of the Company, details of which are set out as follows:

	Number of Shares	Approximate shareholding %
The Offeror and its Concert Parties		
— The Offeror ⁽¹⁾	86,862,000	9.12
— Inspur Overseas	288,478,000	30.28
— Mr. DONG Hailong ⁽²⁾	284,000	0.03
Other Shareholders	577,112,331	60.57
Total	952,736,331	100.00

Note (1): The Offeror is a wholly-owned subsidiary of Inspur Overseas and is indirectly wholly-owned subsidiary of Inspur Group.

Note (2): Mr. DONG Hailong is a director of Inspur Overseas and is also a director of Inspur Cheeloo Overseas which indirectly and wholly owns the Offeror. In addition, Mr. DONG is a director of the Company.

As at the Latest Practicable Date, Mr. Dong Hailong, who is a director of each of Inspur Cheeloo Overseas and Inspur Overseas, held the following Options:

Date of Grant	Number of Options	Exercise period	Exercise price per Option (HK\$)
10 December 2010	400,000	Until 9 December 2020	3.41
13 May 2016	40,000	13 May 2018 - 12 May 2026	1.34
4 May 2017	40,000	4 May 2018 - 3 May 2027	1.63
4 May 2017	<u>40,000</u>	4 May 2019 - 3 May 2027	1.63
Total	<u><u>520,000</u></u>		

(b) Interests of the Directors and chief executive in the Company

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their respective associates nor supervisors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company and shares, underlying shares and debentures of its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

Long positions in shares of the Company:

Name of Director/ Chief Executive	Total number of Shares interested	Nature of interest	Approximate percentage of shareholding in the registered capital
Mr. Dong Hailong	284,000 Shares	Beneficial owner	0.03%

Long positions in underlying shares of equity derivatives of the Company (Options in the Company (Unlisted and physically settled equity derivatives):

Name of Directors	Type of interests	Number of underlying Shares	Subscription price per Share
Mr. Wang Xingshan	Beneficial owner	1,000,000	3.41
		800,000	1.63
		480,000	1.34
Mr. Jin Xiaozhou, Joe	Beneficial owner	1,800,000	1.71
		800,000	1.63
Mr. Dong Hailong	Beneficial owner	400,000	3.41
		80,000	1.63
		40,000	1.34
Mr. Shen Yuanqin, Samuel	Beneficial owner	200,000	1.71
		100,000	1.63
		100,000	1.34
Mr. Wong Lit Chor	Beneficial owner	40,000	3.41
		80,000	1.63
		40,000	1.34
Ms. Zhang Ruijun	Beneficial owner	200,000	1.71
		100,000	1.63
		100,000	1.34
Mr. Ding Xiangqian	Beneficial owner	100,000	1.63
Total		<u>6,460,000</u>	

(c) Interests of the substantial shareholders in the Company

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors) had interests or short positions in the Shares and underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of interests
Inspur Group Limited 浪潮集團有限公司	Corporate ^(Note 1)	375,340,000	39.40%
Inspur Overseas Investment Limited 浪潮海外投資有限公司	Beneficial owner/ Corporate ^(Note 2)	375,340,000	39.40%
The Offeror	Beneficial owner	86,862,000	9.12%

Note 1: Inspur Group Limited is taken to be interested in 375,340,000 Shares due to its 100% shareholdings in the issued share capital of Inspur Overseas Investment Limited (as to 288,478,000 Shares) and its 100% indirect shareholdings in the Offeror (as to 86,862,000 Shares).

Note 2: Inspur Overseas Investment Limited is taken to be interested in 375,340,000 Shares due to (1) its beneficial ownership of 288,478,000 Shares and (2) its 100% shareholding in the Offeror which, in turns, beneficially owns 86,862,000 Shares.

(d) Confirmations

As at the Latest Practicable Date,

- (i) save as disclosed in the first table set out in section 4(a) above, there was no existing holding of voting rights or rights over Shares which is owned or controlled or directed by the Offeror or any of its Concert Parties;
- (ii) save as disclosed in the second table set out in section 4(a) above setting out the Options held by Mr. Dong Hailong, none of the Offeror or any of its Concert Parties held any convertible securities, warrants, options or derivatives in respect of the Shares;
- (iii) no director of the Offeror was interested in any Shares, Options or convertible securities, warrants, options or derivatives in respect of the Shares;
- (iv) there are no relevant securities (as defined in Note 4 to Rule 22 of the Code) in the Company which the Offeror or any of its Concert Parties has borrowed or lent (save for any borrowed shares which have been either on-lent or sold);
- (v) the Company had no interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;

- (vi) save as disclosed under section 4(b) above, none of the Directors had any interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
- (vii) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company was owned or controlled by any subsidiary of the Company (including members of the Group), or by a pension fund of the Company or any subsidiary of the Company (including members of the Group), or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;
- (viii) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives of Company were managed on a discretionary basis by fund managers connected with the Company; and
- (ix) none of the Company or any of the Directors had borrowed or lent any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company.

5. DEALINGS IN THE COMPANY'S SECURITIES

During the Relevant Period,

- (a) the Offeror had dealt for value in Shares, the particulars of which are as follows:

Date of transaction	Name	Number of Shares purchased/(sold)	Price per Shares (HK\$)	Approximate %
18 August 2017	The Offeror	2,482,000	2.06	0.26
18 August 2017	The Offeror	1,518,000	2.07	0.16
21 August 2017	The Offeror	12,100,000	2.10	1.27
22 August 2017	The Offeror	2,500,000	2.10	0.26
4 September 2017	The Offeror	50,640,000	2.10	5.32
5 September 2017	The Offeror	17,622,000	2.10	1.85

Mr. Dong Hailong, a Concert Party of the Offeror, had dealt for value in Options, the particulars of which are as follows:

Date of transaction	Name	Nature of dealings	Number of Options	Number of Shares under the Options	Exercise period	Exercise price per Option (HK\$)	Total exercise price paid (HK\$)
31 August 2017	Mr. Dong Hailong	Exercising of Options	200,000	200,000	16 July 2015 — 15 July 2025	1.71	342,000.00
31 August 2017	Mr. Dong Hailong	Exercising of Options	60,000	60,000	13 May 2016 — 12 May 2026	1.34	80,400.00
31 August 2017	Mr. Dong Hailong	Exercising of Options	20,000	20,000	4 May 2017 — 3 May 2027	1.63	32,600.00

Save as disclosed above, none of the Offeror or any of its Concert Parties had dealt for value in any Shares, Options or convertible securities, warrants, options or derivatives in respect of the Shares;

- (b) none of the Company or the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror;
- (c) the following Directors had dealt for value in Options, the particulars of which are as follows:

Date of transaction	Name	Nature of dealings	Number of Options	Number of Shares under the Options	Exercise period	Exercise price per Option (HK\$)	Total exercise price paid (HK\$)
31 August 2017	Mr. Wang Xingshan	Exercising of Options	3,000,000	3,000,000	16 July 2015-15 July 2025	1.71	5,130,000.00
31 August 2017	Mr. Wang Xingshan	Exercising of Options	720,000	720,000	13 May 2016-12 May 2026	1.34	964,800.00
31 August 2017	Mr. Wang Xingshan	Exercising of Options	200,000	200,000	4 May 2017-3 May 2027	1.63	326,000.00
31 August 2017	Mr. Dong Hailong	Exercising of Options	200,000	200,000	16 July 2015-15 July 2025	1.71	342,000.00
31 August 2017	Mr. Dong Hailong	Exercising of Options	60,000	60,000	13 May 2016-12 May 2026	1.34	80,400.00
31 August 2017	Mr. Dong Hailong	Exercising of Options	20,000	20,000	4 May 2017-3 May 2027	1.63	32,600.00
31 August 2017	Mr. Wong Lit Chor, Alexis	Exercising of Options	400,000	400,000	16 July 2015-15 July 2025	1.71	684,000.00
31 August 2017	Mr. Wong Lit Chor, Alexis	Exercising of Options	60,000	60,000	13 May 2016-12 May 2026	1.34	80,400.00
31 August 2017	Mr. Wong Lit Chor, Alexis	Exercising of Options	20,000	20,000	4 May 2017-3 May 2027	1.63	32,600.00

The following Directors have sold their Shares to the Offeror as set out below:

Director	Trade date	No. of Shares sold	Price per Share (HK\$)
Mr. Wang Xingshan	4 September 2017	3,920,000	2.10
Mr. Wong Lit Chor, Alexis	4 September 2017	480,000	2.10

Save as disclosed above, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company;

- (d) no fund managers who were connected with the Company had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company which were managed on a discretionary basis;
- (e) no person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company; and
- (f) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company or an adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company.

6. ARRANGEMENTS IN CONNECTION WITH THE OFFERS

As at the Latest Practicable Date:

- (a) none of the Offeror or any of its Concert Parties has received any irrevocable commitment to accept or reject the Offer;
- (b) there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Code had been entered into between the Offeror or any Offeror Concert Parties and any other person;
- (c) there is no agreement or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a Condition;
- (d) the Offeror had no intention to transfer, charge or pledge any Shares acquired pursuant to the Offers to any other persons and had no agreement, arrangement or understanding with any third party to do so;
- (e) none of the existing Directors had been given any benefit (other than statutory compensation) as compensation for loss of office or otherwise in connection with the Offers;
- (f) no agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror or any of its Concert Parties and any of the Directors or recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the outcome of the Offers;

- (g) In respect of the Options beneficially owned by the Directors, the Directors have the following intentions:

Directors	Total number of Options	Intentions of the Directors
Mr. Wang Xingshan	2,280,000	He will accept the Option Offer in respect of all of his Options.
Mr. Jin Xiaozhou, Joe	2,600,000	He will accept the Option Offer in respect of all of his Options.
Mr. Dong Hailong	520,000	As Mr. Dong Hailong is a director of Inspur Overseas and also a director of Inspur Cheeloo Overseas which indirectly and wholly owns the Offeror, he is considered to be a Concert Party of the Offeror, and thus is not in a position to accept or reject the Option Offer.
Mr. Samuel Y. Shen	400,000	He will accept the Option Offer in respect of all of his Options.
Mr. Wong Lit Chor, Alexis	160,000	He will accept the Option Offer in respect of all of his Options.
Ms. Zhang Ruijun	400,000	She will accept the Option Offer in respect of all of her Options.
Mr. Ding Xiangqian	100,000	He will accept the Option Offer in respect of all of his Options.

As Mr. Dong Hailong is a director of Inspur Overseas and also a director of Inspur Cheeloo Overseas which indirectly and wholly owns the Offeror, he is considered to be a Concert Party of the Offeror, and thus is not in a position to accept or reject the Share Offer.

- (h) there was no material contract entered into by the Offeror in which any Director has a material personal interest; and
- (i) no person has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

7. DIRECTORS' SERVICE CONTRACTS

Details of the service contracts of the Directors are set out below:

Name of Directors	Title	Commencement date of service contract	Expiry date of service contract	Fixed remuneration under service contract	Variable remuneration under service contract
Mr. Wang Xingshan	Executive director	27 October 2015	26 October 2018	HK\$300,000 per year	Bonus is determined by the Company in consideration of the Company's and the Director's performance after service of twelve months
Mr. Lee Eric Kong	Executive director	1 August 2017	31 July 2020	US\$180,000 per year	—
Mr. Dong Hailong	Non-executive director	3 July 2016	2 July 2019	—	—
Ms. Zhang Ruijun	Independent non-executive director	31 March 2017	30 March 2020	HK\$60,000 per year	—
Mr. Ding Xiangqian	Independent non-executive director	11 December 2015	10 December 2018	HK\$60,000 per year	—

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which:

- (a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the commencement of the Offer Period;
- (b) was a continuous contract with a notice period of 12 months or more;
- (c) was a fixed term contract with more than 12 months to run irrespective of the notice period; or
- (d) was not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

No contracts of significance in relation the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by members of the Group within the two years prior to 3 August 2017 (being the date of commencement of the Offer Period) and up to the Latest Practicable Date which was or might be material:

- (a) the conditional agreement dated 12 September 2016 between the Company and the Inspur Group in relation to the various continuing connected transactions for the three financial years ending 31 December 2019 which was announced by the Company on 12 September 2016
- (b) the sale and purchase agreement dated 20 December 2016 entered into between 山東浪潮雲海雲計算產業投資有限公司(Shandong Inspur Cloud Computing Industry Investment Company Limited)* as vendor and 浪潮通用軟件有限公司(Inspur General Software Company Limited)* as purchaser in relation to the target company of 黑龍江浪潮雲海科技有限公司(Heilongjiang Inspur Yunhai Technology Company Limited)* at consideration of no more than RMB8,000,000 which was announced by the Company on 20 December 2016
- (c) the supplemental agreement dated 20 December 2016 between Jinan Inspur Minda Information Technology Limited* (濟南浪潮銘達信息科技有限公司) and Inspur Group to vary the terms of the framework leasing agreement dated 29 May 2015 between the same parties which was announced by the Company on 20 December 2016
- (d) the joint venture agreement dated 9 May 2017 among Inspur Group, Inspur Software Co., Ltd.* (浪潮軟件股份有限公司) and Inspur Common Software Co., Ltd.* (浪潮通用軟件有限公司) in relation to the formation of 浪潮集團財務有限公司 Inspur Group Finance Co., Ltd. which was announced by the Company on 9 May 2017

10. CONSENTS AND QUALIFICATIONS OF PROFESSIONAL ADVISERS

The followings are the names and the qualifications of the professional advisers whose letters, opinions or advice are contained or referred to in this Composite Document:

Name	Qualifications
ABCI	a corporation licensed by the SFC to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Amasse	a licensed corporation licensed by the SFC to carry out business in Type 6 (advising on corporate finance) regulated activity under the SFO
Asset Appraisal Limited	independent property valuer

Each of ABCI, Amasse and Asset Appraisal Limited has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion herein of their respective letters, opinions or advice (as the case may be) and references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of ABCI, Amasse and Asset Appraisal Limited had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. MISCELLANEOUS

- (a) The Offeror is a company incorporated in Hong Kong with limited liability on 20 May 2015 and is an indirect wholly-owned subsidiary of Inspur Software Group. The registered office of the Offeror is 16/F., Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong.
- (b) The sole director of the Offeror is Mr. Zhao Yongzhen.
- (c) Inspur Software Group is a company established in the PRC with limited liability and is owned as to 99.52% by Ji'nan Inspur Wireless Communication and 0.48% by Inspur Group. Ji'nan Inspur Wireless Communication is 100% owned by Inspur Group. Therefore, Inspur Software Group is wholly-owned by Inspur Group.

Inspur Group is held as to 38.88% by Shandong State-owned Assets Investment Holding Co., Ltd. (山東省國有資產投資控股有限公司). None of its shareholders other than Shandong State-owned Assets Investment Holding Co., Ltd. holds one-third or more of Inspur Group. Shandong State-owned Assets Investment Holding Co., Ltd. is held as to 70% by the State-owned Assets Supervision and Administration Commission of Shandong Province (山東省人民政府國有資產監督管理委員會) and as to 30% by the National Social Security Fund of Shandong Province (山東省社會保障基金理事會).

- (d) The directors of Inspur Software Group are:
- Mr. Wang Baihua
Mr. Chen Dongfeng
Mr. Wang Hongtian.
- (e) The registered office of Inspur Software Group is situated at No. 2877 Kehang Road, Hi-Tech Zone, Ji'nan, PRC.
- (f) The company secretary of the Company are Ms. Chan Wing and Mr. Zou Bo.
- (g) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (h) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712 — 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (i) The registered office of ABCI is at 11/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection, during the period from 7 September 2017, being the date of this Composite Document for so long as the Offers remain open for acceptance, at (i) the website of the SFC at <http://www.sfc.hk>; (ii) the website of the Company and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m., except for Saturdays, Sundays and public holidays) the principal place of business of the Company in Hong Kong at Room B&C, 30/F, Tower A, Billion Center, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong:

- (a) the memorandum of association and the articles of association of the Company;
- (b) the memorandum and articles of association of Inspur Overseas;
- (c) the annual reports of the Company for each of the two financial years ended 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017;
- (d) the letter from ABCI as set out in this Composite Document;
- (e) the letter from the Board as set out in this Composite Document;
- (f) the letter from the Independent Board Committee to the Independent Shareholders as set out in this Composite Document;
- (g) the letter from Independent Financial Adviser to the Independent Board Committee as set out in this Composite Document;

- (h) the valuation report from Asset Appraisal Limited on the property interests of the Group as set out in Appendix III in this Composite Document;
- (i) the service contracts referred to under the paragraph headed “Directors’ service contracts” in this Appendix;
- (j) the material contracts referred to under the paragraph headed “Material contracts” in this Appendix; and
- (k) the letters of consents referred to under the paragraph headed “Consents and qualifications of professional advisers” in this Appendix.