The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial information and the related notes set out in the accountants' report included as Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual future results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are the leader in China's telecom software product and related service market and are actively expanding our presence in China's non-telecom enterprise software product and related service market. We provide mission-critical, carrier-grade software products and services that enable Chinese telecom operators and large enterprises to improve business agility, efficiency and productivity and capture new revenue streams while optimizing costs, achieving greater success in the evolving digital era.

We have been strategically focusing on China's telecom software product and related service market. Over the past two decades, we have developed an extensive portfolio of software products and services for telecom operators and accumulated deep insights into their IT and network environment and business and operational needs, and have become the largest telecom software product and related service provider in China, with a market share of 25.3%, as well as the largest BSS software product and related service provider in the telecom industry in China, with a market share of 50.0%, as measured by revenue in 2017 according to Frost & Sullivan. As of December 31, 2015, 2016 and 2017 and June 30, 2018, we had 176, 181, 193 and 212 telecom operator customers, respectively, with whom we negotiate and enter into contracts individually and directly. In 2015, 2016, 2017 and the six months ended June 30, 2018, revenue for the Software Business from telecom operators accounted for 87.0%, 88.9%, 93.9% and 96.6% of our total revenue from continuing operations, respectively.

As we continue to reinforce our leading position in China's telecom software product and related service market, we have also tapped into and are actively expanding our presence in China's fast-growing non-telecom enterprise software product and related service market to address large enterprises' similar, fundamental needs in business transformation and digitalization. By serving both the telecom and non-telecom enterprise markets with shared resources, management, domain expertise and technology know-how, we are able to leverage synergies in winning new businesses and remain cost competitive.

Software Business. During the Track Record Period, we derived a substantial majority of our revenue from the provision of software products and related services, as well as a variety of other services (collectively, the "**Software Business**"), including:

- ***Software products and related services***. We derive a substantial majority of our revenue through the on-premise, project-based delivery model from:
  - (i) provision of software products and related deployment services. We deliver our software products and related deployment services pursuant to fixed-price project development contracts with our customers;
  - (ii) provision of ongoing operation and maintenance services for the launched systems deploying our software products;
- ***Data-driven operation services***. We also provide data-driven operation services through data-driven operation platforms under a pay-as-a-result model. These services are either provided directly to telecom operators or in collaboration with telecom operators to their government and enterprise customers; and
- ***Others***. We also derive revenue from rendering a variety of other services, including procurement of third-party hardware and software for some of our projects, system integration services, business consulting services and corporate trainings.

Network Security Business. During the Track Record Period, our results from continuing operations also included results of the Network Security Business. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, to accommodate our customers' project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the "**Network Security Transitional Arrangement**"). We recognized the contract prices of such project development contracts as revenue for the relevant periods based on their percentage of completion, and recorded the same amounts as cost of sales. In consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement, such as contract management, customer relationship management and liaison, we charged AsiaInfo Chengdu service fees which amounted to 2% of the Network Security Transitional Arrangement revenue recognized for the relevant periods, which were offset against cost of sales. We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018. However, some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing. We expect that these existing project development contracts under the Network Security Transitional Arrangement will be completed by the end of 2020. The Company was informed by the Controlling Shareholders and Dr. Tian that pursuant to a share transfer agreement entered into by China Cloud Tech as buyer (being a company controlled by Dr. Tian) and AsiaInfo Cayman as seller (the "**Transfer Agreement**"), AsiaInfo Cayman has conditionally agreed to transfer 70% of the total issued shares of AsiaInfo Securities held by it (the "**Relevant Shares**") to China Cloud Tech. In September 2018, China Cloud Tech has acquired and AsiaInfo Cayman has disposed of the effective control and all economic interests over the Relevant Shares, although the legal completion of the Transfer Agreement is still subject to satisfaction of certain conditions precedent. As a result, Dr. Tian (through China Cloud Tech) obtained indirect control over AsiaInfo Chengdu.

Our business continued to grow during the Track Record Period. Our revenue from continuing operations increased from RMB4,764.9 million in 2015 to RMB4,856.0 million in 2016 and further to RMB4,948.3 million in 2017. Our revenue from continuing operations increased by 3.1% from RMB2,123.7 million for the six months ended June 30, 2017 to RMB2,189.7 million for the six months ended June 30, 2018. Our profit for the year from continuing operations was RMB309.8 million, RMB74.0 million and RMB335.2 million in 2015, 2016 and 2017, respectively. Our profit for the period from continuing operations was RMB86.8 million in the six months ended June 30, 2018, compared to loss for the period from continuing operations of RMB8.5 million in the six months ended June 30, 2017. During the Track Record Period, we generated all of our revenues from continuing operations in China.

Excluding the impact of share-based compensation, amortization of intangible assets resulting from acquisitions, one-off listing expenses, interest expenses for the Privatization Syndicated Loan and gain on disposal of a subsidiary, our adjusted profit for the year from continuing operations was RMB470.0 million, RMB204.3 million and RMB547.6 million in 2015, 2016 and 2017, respectively. Our adjusted profit for the period from continuing operations increased from RMB90.5 million in the six months ended June 30, 2017 to RMB173.4 million in the six months ended June 30, 2018. See "—Non-HKFRS Measures" for more details.

Our revenue from continuing operations for the Software Business increased from RMB4,275.2 million in 2015 to RMB4,514.6 million in 2016, and further to RMB4,824.9 million in 2017. Our revenue from continuing operations for the Software Business increased by 6.6% from RMB2,043.6 million for the six months ended June 30, 2017 to RMB2,177.6 million for the six months ended June 30, 2018.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are the principal factors that have affected and we expect will continue to affect our business, financial condition, results of operations and prospects:

- level of market demand for our products and services;
- our project execution and delivery and R&D capabilities;
- our ability to retain existing customers and acquire new customers;
- our operational efficiency;
- our ability to recruit and retain eligible employees; and
- seasonality.

Level of Market Demand for Our Products and Services

We currently derive a substantial majority of our revenue from Chinese telecom operators. In 2015, 2016, 2017 and the six months ended June 30, 2018, revenue for the Software Business from continuing operations from telecom operators accounted for 87.0%, 88.9%, 93.9% and 96.6% of our total revenue from continuing operations, respectively. We believe that telecom operators will continue to be our major customers and contribute a significant portion of our revenue.

Telecom operators' ongoing digital transformation is expected to drive the increase in their spending in telecom software products and services, especially those under new business models such as data-driven operation services, or incorporating emerging technologies such as IoT and intelligent network technologies. As the leader in China's telecom software product and related service market with a 25.3% market share as measured by revenue in 2017, and the leader in China's BSS software product and related service market in the telecom industry in China, with a 50.0% market share as measured by revenue in 2017, according to Frost & Sullivan, we believe that we are well positioned to embrace new business opportunities during telecom operators' digital transformation. For example, as telecom operators continue to reinvent their business models to adapt to the digital world, we have in recent years provided comprehensive data-driven operation services to telecom operators and their government and enterprise customers under a pay-as-a-result model applying AI, machine learning and other emerging technologies, which are designed to help them increase sales, operational efficiency or customer value.

The demand for our software products and services is also affected by industry policies concerning the telecom industry in China. For example, favorable industry policies and initiatives implemented by the PRC government in recent years are expected to continue to raise telecom operators' level of spending on software products and related services and drive the market demand for telecom software products and related services. Industry restructurings, such as China Unicom's Mixed-Ownership Reform in 2017, may also cause telecom operators' demand for software products and services to fluctuate. Driven by these policies and restructurings, China's telecom software product and related service market is forecasted to experience a higher growth at a CAGR of 11.5% from RMB19.7 billion in 2018 to RMB30.5 billion in 2022.

As we continue to expand in China's non-telecom enterprise software product and related service market (the market size of which is expected to grow at a CAGR of 11.1% from 2018 to 2022, reaching RMB435.3 billion by 2022) and actively explore new business opportunities in China's data-driven operation service market (the market size of which is expected to grow at a CAGR of 14.7% from 2018 to 2022, reaching RMB138.3 billion in 2022), we expect the demand of non-telecom enterprises for software products and related services and the demand for data-driven operation services to have an impact on our results of operations as well.

Our Project Execution and Delivery and R&D Capabilities

We derive most of our revenue from project-based project development contracts. Under these agreements, we develop software products and provide related deployment services at fixed prices, which are calculated based on our estimated costs for completing the projects, and according to specific delivery milestones. To ensure the smooth implementation of our projects within the fixed budget and time frame, it is imperative that we maintain industry-leading project execution and delivery and R&D capabilities. For example, we plan to further standardize our software development and project delivery process pursuant to the CMMI Level 5 software process methodologies, and continue to develop universal products, components and development and operation tools that can be rapidly rolled out across customers, which we believe will enable us to lower project execution and delivery and R&D related costs and reduce project lead time without compromising the quality, reliability and safety of our products and services.

Furthermore, the telecom and non-telecom enterprise software product and related service markets are characterized by rapidly changing technologies, evolving industry standards, frequent introductions of new products and services and enhancement to existing ones. Significant changes in customer needs and preferences, introduction of new products embodying new technologies and the emergence of new industry standards and practices could lead to rapid declines in demands for software products and services with older technologies, standards or delivery models or even render certain products and services obsolete, and may require us to incur substantial unanticipated research and development and other expenses. Accordingly, our financial condition, results of operations and future success depend, to a significant extent, on our ability to continuously strengthen our project execution and delivery capabilities as well as R&D capabilities to timely introduce new software products and services and enhance existing ones in response to the evolving business and operational needs of Chinese telecom operators and large enterprises, technical innovations and emerging market trends, and efficiently and cost-effectively deploy these products and services into customers' overall IT and network environment. For example, we have developed sophisticated IoT industry applications in the areas of smart community, smart town, smart firefighting, smart travel and Internet of Vehicles.

Our Ability to Retain Existing Customers and Acquire New Customers

Our results of operations are in part dependent on our ability to retain and increase the engagement and participation of our existing customers, primarily Chinese telecom operators. As of June 30, 2018, we had 212 telecom operators nationwide, including China Mobile, China Unicom, China Telecom and China Tower's headquarters, provincial, municipal and specialized companies, and our customer retention rate for our telecom customers was higher than 99% in each of 2015, 2016, 2017 and the six months ended June 30, 2018. We plan to proactively communicate with our existing telecom operator customers and direct our R&D efforts and formulate product roadmap accordingly, in order to timely launch products and services that cater to their evolving business needs. As these telecom operator customers continue their digital transformation, we believe we are well positioned to cross-sell additional software products and services that help them reinvent their business models, range of services and end user experiences.

Our revenue growth is also dependent on our ability to acquire new customers, and we have implemented a number of initiatives in this regard. For example, we plan to continue to proactively work with telecom operators' newly-established specialized companies and divisions and promote products and services that will accelerate their business growth. We have also been actively expanding our customer base in China's non-telecom enterprise software product and related service market. For example, we plan to continue to promote some of our universal, carrier-grade products to non-telecom industries. In addition, we will continue to strengthen our marketing and promotion efforts for non-telecom industries and actively demonstrate our carrier-grade technologies and capabilities accumulated in the telecom market to non-telecom enterprises.

Our Operating Efficiency

Our results of operations are directly affected by our ability to enhance operating efficiency and leverage scale of business. Accordingly, the success of our business depends, in part, on our ability to reduce our operating costs and expenses and improving our operating efficiency.

As our business further grows in scale, we have taken a number of initiatives in recent years to improve our operating efficiency. For example, to minimize duplication of work and achieve cost savings, we have organized our internal operations to centralize our R&D, quality assurance and various other activities, which used to be conducted within the relevant business divisions, at the company level. While we expect our expenses to continue to increase in line with our overall growth, we believe we will increasingly benefit from economies of scale as our business continues to grow.

Our Ability to Recruit and Retain Eligible Employees

Our business and success depend in part on our ability to maintain a steady workforce. To remain competitive in the dynamically changing digital era, we endeavor to continue to invest in our people and expand our talent pool, and set up appropriate incentives to attract key talents. The contribution of staff costs for continuing operations (excluding share-based compensation expenses) to our cost of sales and expenses was approximately 64.1%, 57.4%, 66.0% and 70.1% in 2015, 2016, 2017 and the six months ended June 30, 2018, respectively. As we typically enter into fixed-price contracts with our customers, if there is an increase in our staff costs, we may not be able to pass the rising staff costs onto our customers and our financial performance may be adversely affected.

Seasonality

We experience seasonal fluctuations in our results of operations. Our revenue, a vast majority of which is recognized based on our projects' percentage of completion, is generally lower during the first half of the year, as the development process of our projects typically slows down during the first quarter of the year due to the Chinese New Year holidays. In addition, due to telecom operators' project management schedules, we generally receive a larger number of orders from, and experience faster payment settlement process with, our telecom operator customers in the second half of the year.

BASIS OF PRESENTATION

The Company was incorporated in the British Virgin Islands with limited liability. Pursuant to the Reorganization, the Company became the holding company of the companies now comprising our Group on April 30, 2018. See "History, Development and Reorganization" for more details. The Company and its subsidiaries have been under the common control of AsiaInfo Holdings throughout the Track Record Period, and before and after the Reorganization, or since their respective dates of incorporation, where there is a shorter period. Accordingly, the financial information has been prepared using the principles of merger accounting as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results, changes in equity and cash flows of the companies comprising our Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since their respective date of incorporation of the relevant companies now comprising our Group, where there is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure has been in existence at those dates taking into account or the respective dates of incorporation of the relevant companies now comprising our Group, where applicable.

APPLICATION OF NEW AND AMENDMENTS TO HKFRSS

HKFRS 15

We have elected to early apply HKFRS 15 *Revenue from Contracts with Customers* consistently throughout the Track Record Period. HKFRS 15 supersedes the revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction contracts* and the related interpretations. Our Directors assessed that early application of HKFRS 15 retrospectively resulted in more disclosures and reclassifications on our consolidated statements of financial position during the Track Record Period, as compared to HKAS 18 and HKAS 11, where the contract asset (liability) balances included amounts reclassified from amounts due from (to) customers for contract works under construction contracts. However, our Directors have evaluated the impact of the application of HKFRS 15 and concluded that there is no material impact on the timing and amounts of revenue recognized during the Track Record Period.

HKFRS 9

We applied HKAS 39 *Financial Instruments: Recognition and Measurement* for each of the three years ended December 31, 2017 and adopted HKFRS 9 *Financial Instruments* on January 1, 2018. Our Directors assessed the application of HKFRS 9 retrospectively to instruments that had not been derecognized at January 1, 2018 (date of initial application), the impacts mostly included (i) additional impairment loss allowance upon the initial application of HKFRS 9, amounting to RMB22.1 million, resulted entirely from the change in the measurement attribute of the loss allowance relating to each financial asset as compared to the accumulated amount recognized under HKAS 39, (ii) more disclosures applying the classification and measurement requirements (including impairment), and (iii) restatements of the carrying amounts of assets as January 1, 2018 comparing to the carrying amounts at December 31, 2017 with the differences being recognized in the opening retained profits.

Upon adoption of the new standard, there was no significant impact on the classification of our financial assets or financial liabilities as we had no financial assets or financial liabilities as at June 30, 2018 that were previously designated as at fair value through profit or loss or measured at amortized cost under HKAS 39 that were subject to reclassification, or that we have elected to reclassify upon the application of HKFRS 9.

The table below shows the amount of adjustment for each financial statement line item of the Group affected by the application of HKFRS 9.

Impact on assets and equity as of January 1, 2018:

	As previously reported	HKFRS 9 adjusted	As restated
	RMB'000	RMB'000	RMB'000
Trade and notes receivables	888,445	(2,479)	885,966
Contract assets	1,632,039	(19,641)	1,612,398
Deferred tax assets	194,389	2,544	196,933
Total effect on net assets		(19,576)	
Reserves	3,018,835	(19,576)	2,999,259
Total effect on equity		(19,576)	

There is no significant impact on other financial assets under the expected credit losses ("ECL") model upon adoption at January 1, 2018.

We apply the simplified approach to recognize lifetime ECL for our trade receivables and contract assets as required or permitted under HKFRS 9. Allowance on trade receivables based on lifetime ECL that has been recognized in accordance with the simplified approach set out in HKFRS 9 for the six months ended June 30, 2018 was RMB5,739,000 whereas the reversal of allowance on contract assets based on lifetime ECL that has been recognized in the same approach for the six months ended June 30, 2018 was RMB9,312,000. No allowance has been provided for notes receivables, pledged bank deposits and bank balances and cash since the balances are all with the banks which have low credit risks during the six months ended June 30, 2018. The application of ECL under HKFRS 9 did not result in any significant impact on our financial position and performance as compared to the requirements under HKAS 39. See Note 3 and Note 28 to "Appendix I—Accountants' Report" for more information.

HKFRS 16

HKFRS 16 was issued in May 2016 and will be effective for annual periods beginning on or after January 1, 2019, since when HKAS 17 *Leases* and related interpretation will be superseded. 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 recognized for all leases by lessees except for short-term leases and leases of low value assets.

As at June 30, 2018, we have non-cancellable operating lease commitments of RMB366,827,000 as disclosed in Note 47 to the "Appendix I—Accountants' Report. " A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence we will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term lease upon the application of HKFRS 16.

In addition, we currently consider refundable rental deposits paid of RMB36,889,000 as at June 30, 2018 as rights under leases to which HKAS 17 applies, as disclosed in Note 23 to the "Appendix I—Accountants' Report. " Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

The combination of straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognized over the lease term.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. We will elect to apply HKFRS 16 retrospectively with cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative. We will recognize the right-of-use asset at the date of initial application at an amount equal to the lease liability, which is measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application, and adjusted by the amount of any prepaid lease payments relating to that lease recognized in the consolidated statements of financial position immediately before the date of initial application. See Note 3 to "Appendix I—Accountants' Report" for more information.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial condition is based on our audited consolidated financial information prepared in accordance with HKFRS. Our results of operations and financial condition are sensitive to the accounting methods, assumptions and estimates used in the preparation of our consolidated financial information. We continuously evaluate these estimates and judgments based on historical experience and other factors, including expectations of future events, which we currently believe to be reasonable.

Our consolidated financial statements have been prepared in accordance with the following accounting policies which conform with HKFRSs issued by HKICPA. In addition, our consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Our consolidated financial statements have been prepared on historical cost basis, except for certain financial instruments which are measured at fair value, at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

In addition, for financial reporting purposes, fair value measurements are categorized 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 principal accounting policies adopted are set out below.

Basis of consolidation

Our consolidated financial statements incorporate the financial statements of the entities comprising us. Control is achieved when we:

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

We reassess whether or not we control 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 we obtain control over the subsidiary and ceases when we lose control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive (expense) income from the date we gain control until the date when we cease to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to our owners and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to our owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with our accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between our members are eliminated in full on consolidation.

Revenue Recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

Revenue is measured at the fair value of the consideration received or receivable, net of business tax and value added tax.

We use 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: Recognize revenue when (or as) the entity satisfies a performance obligation

We recognize revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;

- our performance creates and enhances an asset that the customer controls as we perform; or
- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents our right to consideration in exchange for goods or services that we have transferred to a customer that is not yet unconditional. It is assessed for impairment on a regular and individual basis. In contrast, a receivable represents our unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. We principally earn revenue from provision of software products and related services as well as a variety of other services including:

- Software business
  - Software products and related services
  - Data-driven operation services
  - Others
- Network security business

Specifically, revenue is recognized in profit or loss as follows:

Software products and related services

We are primarily engaged in (i) the provision of software products and related deployment services, and (ii) the provision of ongoing operation and maintenance services ("**O&M services**").

(i) Software products and related deployment services

The software products and related deployment services include a comprehensive set of professional services, from demand analysis, project design and planning, software development and sourcing, system installation and launch to trial operation and acceptance, which are highly interrelated and significantly affected by other goods and services in the contract. Our Directors have assessed that our performance creates and enhances an asset that the customers control as we perform. Therefore, our Directors have satisfied that there is only one single performance obligation and the services are satisfied over time.

Accordingly, revenue from software products and related deployment services, which are generally under project based development contracts, is recognized based on the stage of completion of the contract which is determined as the proportion of the costs incurred for the works (i.e. subcontracting costs, material costs and direct staff costs incurred) performed to date relative to the estimated total costs to complete the satisfaction of these services and the margin of each project, to the extent that the amount can be measured reliably and its recovery is considered probable.

(ii) O&M services

Upon the launch of a system from the software products and related deployment services we provided, customers typically engage us to provide ongoing O&M services to ensure the stable functioning of the system.

Pursuant to the contracts of rendering related O&M services, the transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring O&M services to customers. Additionally, the O&M services typically meet the criterion where customers simultaneously receive and consume the benefits of our performance as we perform. The fact that another entity would not need to re-perform maintenance services for the service that we have provided to date also demonstrates that customers simultaneously receive and consume the benefits of our performance as we perform. Therefore, our Directors have satisfied that the performance obligation of rendering O&M services is satisfied over time which is recognized over the service period.

Data-driven operation services

We provide data-driven operation services directly to telecom operators and/or in collaboration with telecom operators to the government and enterprise customers in relation to the rendering of comprehensive data operational analytics services to analyze customer behavior.

Our Directors have assessed that the data-driven operation service is one single performance obligation and the customers simultaneously receive and consume the benefits provided by our performance as we perform. Therefore, our Directors are satisfied that the services are satisfied over time.

Others

We generate other revenues from sales of third-party hardware and software, system integration service, business consulting services and corporate trainings.

i. Sales of third-party hardware and software

Revenue is recognized at a point in time when the customer obtains control of the third-party hardware and software.

ii. Provision of services—system integration services, business consulting services and corporate trainings

We enter into system integration service agreements, consulting service agreements with telecom operators and large enterprises, the term of which generally ranges from two months to one year with a fixed contract price.

The performance obligation of provision of such services is satisfied over time. Revenue from rendering business consulting services and corporate trainings is recognized based on the services provided as the customers simultaneously receive and consume the service provided by us over the period. Revenue from rendering system integration services is recognized over time based on the stage of completion of the contract which is determined as the proportion of the cost incurred for the work performed to date relative to the estimated total costs to complete the satisfaction of these services and the margin of each project as our performance creates and enhances an asset that the customers control as we perform.

Network security related software products and services

We were engaged in the providing network security related software products and services, which are similar to software products and related services, independently until November 2015 when we disposed of AsiaInfo Chengdu and transformed the business model to provide similar network security related products and services to customers through outsourcing the entire work to AsiaInfo Chengdu.

Our Directors have assessed that our services create and enhance an asset that the customers control as we perform. Therefore, our Directors have satisfied that the services are satisfied over time. Accordingly, revenue is recognized based on the stage of completion of the contract.

Some of the service contracts contain variable consideration in the form of cash payment based on final service evaluation result (usually in the form of a service evaluation score provided by the customer based on which cash payment is calculated). We estimate the amount of consideration to which we will be entitled using the most likely amount. The estimation of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, except for short-term receivables where the recognition of interest would be immaterial.

Share-based payment arrangements

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

The fair value of the equity-settled share-based payments in respect of share options/restricted stock units ("RSUs") determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on our estimate of equity instruments that will eventually vest, with a corresponding increase in equity (other reserves). At the end of each reporting period, we revise our estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions.

The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

When share options are exercised or when the RSUs are vested, the amount previously recognized in other reserves will continue to be held in other reserves.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will be transferred to retained profits.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax as reported in our consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where we are 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 each 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 realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized 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.

Goodwill

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

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

The table below sets forth a sensitivity analysis of the impact of variations in key assumptions, namely the discount rate and the revenue growth rate, on the recoverable amount of the cash-generating units of software business, where the headroom represents the excess of the recoverable amount over the carrying amount of the goodwill.

	Headroom			
	At December 31,			At June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Change in discount rate				
0%	376,424	490,157	1,213,770	2,838,838
+0.5%	264,424	372,157	1,072,770	2,623,838
+1%	162,424	261,157	940,770	2,421,838
Change in revenue growth rate				
0%	376,424	490,157	1,213,770	2,838,838
-0.5%	339,424	456,157	1,173,770	2,774,838
-1%	303,424	422,157	1,133,770	2,709,838

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

On disposal of the relevant cash-generating unit (or any of the cash-generating unit within group of cash-generating units in which we monitor goodwill), the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The goodwill arose from the acquisition of Linkage was allocated to the entire software business as Linkage's business was integrated into our software business after acquisition, and software business level is determined to be the lowest level at which goodwill is monitored for internal management purpose and at which operating results are regularly reviewed by our chief operating decision maker to make resources allocation decisions and to monitor performance.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, we review the carrying amounts of our tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, we estimate 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 unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

Financial instruments (Before the adoption of HKFRS 9 on January 1, 2018)

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

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 ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

Our financial assets are classified into loans and receivables, available-for-sale ("**AFS**") financial assets and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

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 note receivables, other receivables, other non-current assets, amounts due from related parties, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (1) loans and receivables, (2) held-to-maturity investments, or (3) financial assets at FVTPL.

Equity investments held by us that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognized in profit or loss when our right to receive the dividends is established. Other changes in carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified as profit or loss.

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

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Impairment of financial assets

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

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

For all other financial assets, the 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 becomes probable that the borrower will enter bankruptcy or financial re-organization.

Objective evidence of impairment for a portfolio of receivables could include our past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

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

Financial liabilities and equity instruments

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.

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities including trade and notes payables, other payables, amounts due to related parties, bank borrowings are subsequently measured at amortized cost, using the effective interest method.

Derecognition

We derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If we neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred assets, we recognize our retained interest in the asset and an associated liability for amounts it may have to pay.

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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

We derecognize financial liabilities when, and only when, our obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under HKFRS 9)

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Recognized 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 FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortized costs:

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

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

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

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

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

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognized in profit or loss and is included in the "other income" line item.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or designated as FVTOCI. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless we designate an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. We have not designated any debt instruments as at FVTPL.

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

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortized cost, exchange differences are recognized in profit or loss and are included in the "other gains and losses" line item. For financial assets measured at FVTPL, the foreign exchange component forms part of the fair value gain or losses and is recognized in profit or loss in "other gains and losses" line item.

Impairment of financial assets

We recognize a loss allowance for ECL on financial assets and other instruments which are subject to impairment under HKFRS 9 (including trade receivables and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

We always recognize lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are estimated using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast of future conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, we recognize lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, we measure the loss allowance for that financial instrument at an amount equal to 12m ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Write-off policy

We write off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets which have been written off may still be subject to enforcement activities under our recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to us in accordance with the contract and all the cash flows that we expect to receive, discounted at the original effective interest rate determined at initial recognition.

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

We recognize an impairment gain or loss in profit or loss for all financial instruments and other instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognized through a loss allowance account.

In determining the ECL for other receivables, amounts due from related parties, bank balances and cash, pledged bank deposits, notes receivables and other non-current assets, our Directors have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables, amounts due from related parties, bank borrowings and cash, pledged bank deposits, notes receivables and other non-current assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. For the purposes of impairment assessment, other receivables, amounts due from related parties, bank borrowings and cash, pledged bank deposits, notes receivables and other non-current assets are considered to have low credit risk as the counterparties to these financial assets have a high credit rating and insignificant historical default experience. Accordingly, loss allowance is measured at an amount equal to 12m ECL.

At of January 1, 2018, our Directors reviewed and assessed our existing financial assets and other instruments for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

Derecognition of financial assets

We derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when we transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortized cost

Financial liabilities including trade and notes payables, other payables, amounts due to related parties, bank borrowings are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

We derecognize financial liabilities when, and only when, our obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that we have made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in our consolidated financial statements.

Judgments in determining the performance obligations

In making their judgments, we considered the detailed criteria for recognition of revenue set out in HKFRS 15. In determining performance obligations, our Directors consider whether the customer benefits from each service on its own and whether it is distinct in the context of the contract. Specifically, when concluding a contract has multiple performance obligations, our Directors consider that the individual performance obligation is regularly satisfied separately and the service is separately identifiable from other promises within the contract.

Judgments in determining the timing of satisfaction of performance obligations

Note 4 to the Accountants' Report included in Appendix I describes the revenue recognition basis to each of our revenue stream. The recognition of each of our revenue stream requires judgment by us in determining the timing of satisfaction of performance obligations.

In making their judgment, our Directors considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether we have satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with our customers.

For our software business and network security business, our Directors have assessed that our performance creates and enhances an asset that the customer controls as we perform. Therefore, our Directors have satisfied that the performance obligation is satisfied over time and recognized the revenue over the service period.

For O&M services included in the software business, our Directors have determined that the customer simultaneously receives and consumes the benefits provided by our performance as we perform. Therefore, our Directors have satisfied that the performance obligation is satisfied over time and recognized the revenue over the service period.

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 and liabilities within the next twelve months from the end of each reporting period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. The recoverable amount determination of the cash-generating units throughout the Track Record Period is based on the present value calculation which requires us to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a further impairment loss may arise. As of December 31, 2015, 2016, 2017 and June 30, 2018, the carrying amount of goodwill was RMB1.9 billion, RMB1.9 billion, RMB1.9 billion and RMB1.9 billion, respectively. Details of the recoverable amount calculation are disclosed in Note 18 to the Accountants' Report in Appendix I.

Useful life of property, plant and equipment and intangible assets with definite useful lives

Our management depreciates and amortizes the property, plant and equipment and intangible assets with definite useful lives on a straight-line basis over their estimated useful lives, respectively. The estimated useful lives reflect our Directors' estimation of the periods that the future economic benefits can be derived from the usage of our property, plant and equipment and intangible assets with definite useful lives. If the estimated useful life did not reflect its actual useful life, additional depreciation and amortization may be required.

Our Directors estimated the useful life of intangible assets with finite useful lives based on their future economic benefits from the usage of our intangible assets and the contract terms specified in the respective agreements. Specifically, the customer relationships included in our intangible assets are arisen from the business acquisitions incurred before the Track Record Period. The useful lives of such customer relationships were estimated by reference to the nature of customers and the estimated churn rate, which range from two to 10 years. For the software, the useful lives were estimated based on the contracted service periods specified in the respective software purchase agreements entered into with third-party software providers.

Project-based development contracts

Revenue from project-based development contracts is recognized under the percentage of completion method which requires estimation made by our management. Our Directors estimate the contract costs, outcome and expected cost to complete the contracts based on the budgets prepared for the contracts. Due to the nature of the activities, our Directors review and revise the estimates of both contract outcome and expected costs to complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to completion would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognized.

RESULTS OF OPERATIONS

The table below sets forth our consolidated statements of profit or loss and other comprehensive income, with line items both in absolute amounts and as percentages of our revenue from continuing operations for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Continuing operations:							(unaudited)			
Revenue	4,764,871	100.0	4,855,953	100.0	4,948,324	100.0	2,123,650	100.0	2,189,715	100.0
Cost of sales	(2,991,246)	(62.8)	(3,183,328)	(65.6)	(3,277,896)	(66.2)	(1,554,242)	(73.2)	(1,527,844)	(69.8)
Gross profit	1,773,625	37.2	1,672,625	34.4	1,670,428	33.8	569,408	26.8	661,871	30.2
Other income	92,258	1.9	141,791	2.9	114,712	2.3	58,922	2.8	41,516	1.9
Other gains and losses	(4,096)	(0.1)	(45,228)	(0.9)	68,828	1.4	42,932	2.0	(24,995)	(1.1)
Selling and marketing expenses	(572,945)	(12.0)	(614,572)	(12.7)	(481,831)	(9.7)	(204,765)	(9.6)	(185,161)	(8.5)
Administrative expenses	(255,754)	(5.4)	(273,079)	(5.6)	(403,800)	(8.2)	(174,843)	(8.2)	(151,972)	(6.9)
Research and development expenses	(629,601)	(13.2)	(636,614)	(13.1)	(430,246)	(8.7)	(232,666)	(11.0)	(181,114)	(8.3)
Share of results of associates	—	—	—	—	258	0.0	(438)	0.0	120	0.0
Share of results of a joint venture	—	—	(10,000)	(0.2)	—	—	—	—	—	—
Finance costs	(6,075)	(0.1)	(93,905)	(1.9)	(83,986)	(1.7)	(48,682)	(2.3)	(33,855)	(1.4)
Listing expenses	—	—	—	—	(30,603)	(0.6)	—	—	(20,862)	(1.0)
Profit before tax	397,412	8.3	141,018	2.9	423,760	8.6	9,868	0.5	105,548	4.9
Income tax expenses	(87,622)	(1.8)	(66,998)	(1.4)	(88,584)	(1.8)	(18,383)	(0.9)	(18,711)	(0.9)
Profit (loss) for the year/period from continuing operations	309,790	6.5	74,020	1.5	335,176	6.8	(8,515)	(0.4)	86,837	4.0
Discontinued operations:										
Loss for the year/period from discontinued operations	(420,462)	(8.8)	(294,873)	(6.0)	(17,233)	(0.4)	(52,152)	(2.5)	(1,279)	(0.1)
Profit (loss) for the year/period	(110,672)	(2.3)	(220,853)	(4.5)	317,943	6.4	(60,667)	(2.9)	85,558	3.9
Non-HKFRS Measures[1]										
Adjusted EBITDA from continuing operations (unaudited)[2]	624,114	13.1	355,566	7.3	704,582	14.2	152,242	7.2	218,118	10.0
Adjusted profit for the year/period from continuing operations (unaudited)[3]	470,020	9.9	204,341	4.2	547,630	11.1	90,521	4.3	173,447	7.9
Adjusted profit for the year/period from continuing operations (excluding exchange gain/(loss), net) (unaudited)[4]	473,581	9.9	299,537	6.2	463,601	9.4	50,394	2.4	200,687	9.2

1. Adjusted EBITDA from continuing operations and adjusted profit for the year/period from continuing operations are not measures required by, or presented in accordance with, HKFRS. The use of these measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. See "—Non-HKFRS Measures" for more details.
2. We define adjusted EBITDA from continuing operations as EBITDA from continuing operations (which is profit before tax from continuing operations plus finance costs and depreciation and amortization expenses) adjusted by adding back share-based compensation and one-off listing expenses, and excluding gain on disposal of a subsidiary.
3. We define adjusted profit for the year/period from continuing operations as profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off listing expenses and interest expenses for the Privatization Syndicated Loan, and excluding gain on disposal of a subsidiary.
4. Exchange gains and losses are associated with fluctuations in exchange rate of the U.S. dollar against Renminbi, which was related to the following non-recurring items: (i) the Privatization Syndicated Loan in the principal amount of US$191.4 million and other related U.S. dollar-denominated bank loans, which will be repaid using proceeds from the Global Offering and cash on hand (including pledged bank deposits released upon repayment of the corresponding bank loans), and (ii) amounts due to/from related parties denominated in U.S. dollars, substantially all of which were of non-trade nature, and all of which had been settled as of September 30, 2018.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Continuing Operation

Our business is comprised of two business segments, the Software Business and the Network Security Business.

During the Track Record Period, our results from continuing operations also included results of the Network Security Business. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, in order to accommodate our customers' project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the "**Network Security Transitional Arrangement**"). We recognized the contract prices of such project development contracts as revenue for the relevant periods based on their percentage of completion, and recorded the same amounts as cost of sales. In consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement, such as contract management, customer relationship management and liaison, we charged AsiaInfo Chengdu service fees which amounted to 2% of the Network Security Transitional Arrangement revenue recognized for the relevant periods, which were offset against cost of sales. See "Business—Our Products and Services—Others—Network Security Business" for more details.

Although we have ceased to enter into any new contract under the Network Security Transitional Arrangement starting 2018, some of the existing project development contracts we entered into with customers under the Network Security Transitional Arrangement prior to 2018 are still ongoing, and we are acting as the principal of the services under these contracts. We are obligated to provide network security software products and services pursuant to these contracts, and fulfill such performance obligations by outsourcing all tasks under these contracts to AsiaInfo Chengdu. In addition, we will continue to recognize revenue and cost under the Network Security Transitional Arrangement until all of the existing contracts under such arrangement are completed by the end of 2020. Accordingly, we consider that such business has not been disposed of or meets the criteria to be classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Therefore, the Network Security Business is not classified as discontinued operations.

Revenue

We generate a substantial majority of revenue for the Software Business from provision of software products and related services. To a lesser extent, we generate revenue for the Software Business from rendering (i) data-driven operation services, and (ii) other services, including procurement of third-party hardware and software, system integration services, business consulting services and corporate trainings. Revenue for the Software Business accounted for 89.7%, 93.0%, 97.5% and 99.4% of our total revenue from continuing operations in 2015, 2016, 2017 and the six months ended June 30, 2018, respectively.

During the Track Record Period, our revenue also included revenue for the Network Security Business. See "Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement" and "Business—Our Products and Services—Others—Network Security Business" for more details.

The following table sets forth the breakdown of our revenue from continuing operations by product and service category, both in absolute amounts and as percentages of our total revenue from continuing operations, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Revenue from continuing operations										
Software Business:										
Software products and related services[1]	3,996,677	83.9	4,170,779	85.9	4,541,482	91.8	1,935,861	91.2	2,080,660	95.0
Data-driven operation services	18,066	0.4	31,383	0.6	41,745	0.8	13,816	0.7	27,119	1.2
Others[2]	260,497	5.4	312,483	6.5	241,652	4.9	93,962	4.4	69,828	3.2
Total Software Business	4,275,240	89.7	4,514,645	93.0	4,824,879	97.5	2,043,639	96.2	2,177,607	99.4
Network Security Business[3]	489,631	10.3	341,308	7.0	123,445	2.5	80,011	3.8	12,108	0.6
Total	4,764,871	100.0	4,855,953	100.0	4,948,324	100.0	2,123,650	100.0	2,189,715	100.0

1. Includes revenue from (i) provision of software products and related deployment services, and (ii) rendering of ongoing operation and maintenance services. In 2015, 2016, 2017 and the six months ended June 30, 2018, revenue derived from provision of software products and related deployment services was RMB3,216.6 million, RMB3,337.9 million, RMB3,680.5 million and RMB1,707.3 million, respectively, accounted for 67.5%, 68.7%, 74.4% and 78.0% of our total revenue from continuing operations for the respective periods. In 2015, 2016, 2017 and the six months ended June 30, 2018, revenue derived from rendering of ongoing operation and maintenance services was RMB780.1 million, RMB832.9 million, RMB860.9 million and RMB373.3 million, respectively, accounted for 16.4%, 17.2%, 17.4% and 17.0% of our total revenue from continuing operations for the respective periods.
2. Includes revenue from (i) third-party hardware and software procurement, (ii) system integration services, (iii) business consulting services and (iv) corporate trainings.
3. We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement since 2018. The Network Security Business will be discontinued after the existing projects under the Network Security Transitional Arrangement are completed by the end of 2020.

We currently derive a substantial majority of our revenue from Chinese telecom operators. The following table sets forth the breakdown of our revenue from continuing operations by customer group, both in absolute amounts and as percentages of our total revenue from continuing operations, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Revenue from continuing operations										
Software Business:										
Telecom operators	4,143,903	87.0	4,314,101	88.9	4,644,559	93.9	1,959,091	92.3	2,114,590	96.6
Large enterprises	53,133	1.1	87,329	1.8	112,465	2.3	48,141	2.3	48,175	2.2
Small- to medium-sized enterprises	78,204	1.6	113,215	2.3	67,855	1.3	36,407	1.6	14,842	0.6
Total Software Business	4,275,240	89.7	4,514,645	93.0	4,824,879	97.5	2,043,639	96.2	2,177,607	99.4
Network Security Business[1]	489,631	10.3	341,308	7.0	123,445	2.5	80,011	3.8	12,108	0.6
Total	4,764,871	100.0	4,855,953	100.0	4,948,324	100.0	2,123,650	100.0	2,189,715	100.0

1. We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement since 2018. The Network Security Business will be discontinued after the existing projects under the Network Security Transitional Arrangement are completed by the end of 2020.

The telecom operators referred to in the above table include four major telecom operators': (i) headquarters, (ii) provincial companies, (iii) municipal companies, and (iv) specialized companies, with whom we negotiate and enter into contracts individually and directly. These major telecom operators' corporate groups contributed (1) RMB2,276.1 million, RMB1,159.7 million, RMB701.5 million and RMB6.6 million, or 47.9%, 24.3%, 14.7% and 0.1%, of our total revenue from continuing operations in 2015, respectively, (2) RMB2,364.3 million, RMB1,158.1 million, RMB787.2 million and RMB4.6 million, or 48.8%, 23.8%, 16.2% and 0.1%, of our total revenue from continuing operations in 2016, respectively, (3) RMB2,668.8 million, RMB1,152.8 million, RMB810.9 million and RMB12.1 million, or 54.0%, 23.3%, 16.4% and 0.2%, of our total revenue from continuing operations in 2017, respectively, (4) RMB1,122.8 million, RMB477.6 million, RMB357.2 million and RMB1.5 million, or 52.9%, 22.5%, 16.8% and 0.1%, of our total revenue from continuing operations in the six months ended June 30, 2017, respectively, and (5) RMB1,253.0 million, RMB471.7 million, RMB387.5 million and RMB2.3 million, or 57.3%, 21.5%, 17.7% and 0.1%, of our total revenue from continuing operations in the six months ended June 30, 2018, respectively.

Cost of Sales

Cost of sales primarily consists of cost of sales for the Software Business, which primarily include: (i) staff costs, including employee salaries and benefits for our staff that are engaged in the execution and delivery of specific projects, (ii) project-related costs, including travel and other miscellaneous costs incurred by the relevant project development teams in completing specific projects, costs of outsourcing services and costs of third-party hardware and software, (iii) rental costs for our office spaces, and (iv) other costs, which primarily consist of costs incurred by other staff that are also involved in the execution and delivery of projects, including: travel and entertainment expenses, communication expenses, depreciation of computers and other electric devices, amortization of intangible assets recorded as a result of the Linkage Merger completed in 2010 and share-based compensation expenses.

During the Track Record Period, cost of sales also included cost of sales for the Network Security Business. See "Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement" and "Business—Our Products and Services—Others—Network Security Business" for more details.

The table below sets forth a breakdown of our cost of sales from continuing operations in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Cost of sales from continuing operations										
Software Business:										
Staff costs	1,736,351	36.6	1,713,452	35.3	2,132,299	43.1	1,021,999	48.1	1,091,523	49.8
Project-related costs:										
Costs incurred by project development team[1]	338,620	7.1	378,810	7.8	392,195	7.9	172,471	8.1	198,899	9.1
Costs of outsourcing services	238,917	5.0	379,381	7.8	315,560	6.4	148,597	7.0	123,941	5.6
Costs of third-party hardware and software	119,410	2.5	173,272	3.6	115,217	2.3	43,766	2.1	23,874	1.1
	696,947	14.6	931,463	19.2	822,972	16.6	364,834	17.2	346,714	15.8
Rental costs	48,697	1.0	45,977	0.9	70,291	1.4	26,485	1.2	27,381	1.3
Others	187,732	3.9	157,964	3.3	131,358	2.7	62,513	3.0	50,359	2.3
Total Software Business	2,669,727	56.1	2,848,856	58.7	3,156,920	63.8	1,475,831	69.5	1,515,977	69.2
Network Security Business	321,519	6.7	334,472	6.9	120,976	2.4	78,411	3.7	11,867	0.6
Total	2,991,246	62.8	3,183,328	65.6	3,277,896	66.2	1,554,242	73.2	1,527,844	69.8

1. Includes travel and other miscellaneous costs incurred by the project development team of the respective project.

Gross Profit and Gross Margin

In 2015, 2016, 2017 and the six months ended June 30, 2017 and 2018, our gross profit was RMB1,773.6 million, RMB1,672.6 million, RMB1,670.4 million, RMB569.4 million and RMB661.9 million, respectively, and our gross margin was 37.2%, 34.4%, 33.8%, 26.8% and 30.2%, respectively.

In 2015, 2016, 2017 and the six months ended June 30, 2017 and 2018, our gross profit for the Software Business was RMB1,605.5 million, RMB1,665.8 million, RMB1,668.0 million, RMB567.8 million and RMB661.6 million, respectively, and our gross margin for the Software Business was 37.6%, 36.9%, 34.6%, 27.8% and 30.4%, respectively. Our gross margin decreased from 2016 to 2017 primarily because (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017. In order to complete these projects as quickly as possible, we involved a larger number of staff in the execution and delivery of these projects in 2017, resulting in increased cost of sales for these projects, and (ii) we involved a larger number of staff in the execution and delivery of an increasing number of large-scale, complex projects in 2017, which also caused our cost of sales to increase. Our gross margin has improved in the six months ended June 30, 2018 compared to the same period in 2017. However, our gross margin is relatively lower in the first half of the year due to seasonality: our project development process tends to slow down, and our revenue is generally lower, during the first quarter of the year due to the Chinese New Year holidays.

Other Income

Other income primarily comprises (i) government grants we receive from government authorities at various levels in relation to our business operations, (ii) income from the provision of management support services, including legal support, human resources, management system and network, daily administrations and other management services, to AsiaInfo Chengdu and other related parties, (iii) interest income from related parties, (iv) interest income from current bank accounts, including interest income from purchase of short-term wealth management products, and (v) interest income from available-for-sale investments.

The following table sets forth a breakdown of our other income in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Other income										
Government grants	45,160	0.9	49,180	1.0	44,098	0.9	21,032	1.0	10,112	0.5
Income from management support services	11,474	0.2	52,181	1.1	29,179	0.6	16,449	0.8	7,861	0.3
Interest income from related parties	3,586	0.1	19,649	0.4	19,001	0.3	9,719	0.5	7,770	0.4
Interest income from current bank accounts	17,293	0.4	14,721	0.3	19,018	0.4	9,392	0.4	14,041	0.6
Interest income from AFS investments	14,503	0.3	177	0.0	—	—	—	—	—	—
Others	242	0.0	5,883	0.1	3,416	0.1	2,330	0.1	1,732	0.1
Total	92,258	1.9	141,791	2.9	114,712	2.3	58,922	2.8	41,516	1.9

Other Gains and Losses

Other gains and losses primarily comprise of exchange gains/(loss) associated with fluctuations in exchange rate of the U.S. dollar against Renminbi, which was primarily related to a syndicated loan denominated in U.S. dollars in the principal amount of US$191.4 million which was borrowed in connection with the Privatization and was transferred to our Group in December 2015 (the "**Privatization Syndicated Loan**") as well as other U.S. dollar-denominated bank loans. To a lesser extent, other gains and losses also comprise impairment of assets, gain/(loss) on disposal of property, plant and equipment, gain on disposal of a subsidiary to a third party, and gain from extinguishment of liabilities in relation to payables under certain project development contracts. We had other gains of RMB68.8 million in 2017. We incurred other losses of RMB4.1 million, RMB45.2 million and RMB25.0 million in 2015, 2016 and the six months ended June 30, 2018, respectively.

The following table sets forth a breakdown of our other gains and losses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Exchange (loss) gain, net	(3,561)	(0.1)	(95,196)	(2.0)	84,029	1.8	40,127	1.9	(27,240)	(1.2)
Impairment of assets	(19,980)	(0.4)	(2,196)	0.0	(12,482)	(0.3)	(43)	(0.0)	3,523	0.1
Gain (loss) on disposal of property, plant and equipment and intangible assets	2,552	0.1	(4,238)	(0.1)	(5,548)	(0.1)	619	0.0	(1,698)	(0.0)
Gain on disposal of a subsidiary	—	—	48,763	1.0	—	—	—	—	—	—
Gain from extinguishment of liabilities	10,398	0.2	2,635	0.1	1,278	0.0	442	0.0	405	0.0
Others	6,495	0.1	5,004	0.1	1,551	0.0	1,787	0.1	15	0.0
Total	(4,096)	(0.1)	(45,228)	(0.9)	68,828	1.4	42,932	2.0	(24,995)	(1.1)

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of (i) salaries and benefits for our sales and marketing staff, (ii) travel and entertainment expenses for our sales and marketing staff, (iii) depreciation and amortization expenses, primarily including amortization of intangible assets recorded as a result of the Linkage Merger completed in 2010, and (iv) others, such as share-based compensation expenses for our sales and marketing staff, rental expenses, office supply expenses and meeting expenses. Our selling and marketing expenses fluctuated between 2015 and 2017, primarily due to (i) after the Privatization, we increasingly tried to explore the non-telecom enterprise markets, and significantly expanded our sales and marketing team in 2016 in order to tap into the MVNO, e-commerce, education and other non-telecom enterprise markets and acquire small- to medium-sized enterprise customers in these sectors. However, as small- to medium-sized enterprises' needs for software products and services were not aligned with our core capabilities in delivering large-scale software systems, profitability for the relevant projects was lower than expected. As such, we shifted our non-telecom enterprise markets' strategic focus from small- to medium-sized enterprises to large enterprises in financial service, postal, transportation, cable TV and other selected industry sectors and ceased to collaborate with certain small- to medium-sized enterprise customers in 2017, and streamlined our sales and marketing team accordingly; and (ii) various cost saving initiatives we implemented in 2017, such as further increased centralization of our procurement activities.

The following table sets forth a breakdown of our selling and marketing expenses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Selling and marketing expenses:										
Staff salaries and benefits	286,935	6.0	335,187	6.9	253,400	5.1	106,434	5.0	104,840	4.8
Travel and entertainment	139,091	2.9	148,455	3.1	104,877	2.1	41,179	1.9	45,323	2.1
Depreciation and amortization	89,353	1.9	72,973	1.5	54,053	1.1	27,616	1.3	17,811	0.8
Others	57,566	1.2	57,957	1.2	69,501	1.4	29,536	1.4	17,187	0.8
Total selling and marketing expenses	572,945	12.0	614,572	12.7	481,831	9.7	204,765	9.6	185,161	8.5

Administrative Expenses

Administrative expenses primarily include (i) salaries and benefits for our management and administrative staff, (ii) professional service fees, (iii) share-based compensation expenses for our management and administrative staff, and (iv) others, including depreciation and amortization expenses, rental expenses, travel and entertainment expenses, office supply expenses and other miscellaneous items.

The following table sets forth a breakdown of our administrative expenses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Administrative expenses:										
Staff salaries and benefits	146,036	3.1	180,098	3.7	299,235	6.1	113,138	5.3	88,353	4.0
Professional service fees	70,367	1.5	39,515	0.8	25,063	0.5	12,612	0.6	10,354	0.5
Share-based compensation	5,307	0.1	13,997	0.3	36,710	0.7	22,038	1.0	17,020	0.8
Others	34,044	0.7	39,469	0.8	42,792	0.9	27,055	1.3	36,245	1.6
Total administrative expenses	255,754	5.4	273,079	5.6	403,800	8.2	174,843	8.2	151,972	6.9

Research and Development Expenses

Research and development expenses primarily include (i) salaries and benefits for our research and development staff who are focused on centralized R&D of core products that can be shared among our business divisions, (ii) travel and entertainment expenses, (iii) professional service fees, and (iv) others, including depreciation and amortization expenses, share-based compensation expenses for our research and development staff, office supply expenses and other miscellaneous items. We incurred research and development expenses of RMB629.6 million, RMB636.6 million, RMB430.2 million and RMB181.1 million in 2015, 2016, 2017 and the six months ended June 30, 2018, respectively, accounting for 13.2%, 13.1%, 8.7% and 8.3% of our total revenue from continuing operations, respectively. The decrease in our research and development expenses from 2016 to 2017 was primarily due to our reduced R&D activities: In 2016, we increased our R&D activities in order to tap into various non-telecom enterprise markets and acquire small- to medium-sized enterprise customers in these markets. As the profitability for our products for small- to medium-sized enterprise customers was lower than expected, we shifted our non-telecom enterprise markets' strategic focus from small- to medium-sized enterprises to large enterprises in selected industries and ceased to collaborate with certain small- to medium-sized enterprise customers in 2017, and further streamlined our R&D activities to focus on R&D activities primarily in the areas of data-driven operation services and intelligent networks, which were consistent with our growth strategies, and discontinued certain R&D activities which were no longer aligned with our growth strategies. We expect to continue to incur research and development expenses in the areas of data-driven operation services, IoT, intelligent networks, as well as other areas as our R&D strategy evolves.

The following table sets forth a breakdown of our research and development expenses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Research and development expenses:										
Staff salaries and benefits	513,526	10.8	473,069	9.7	368,964	7.5	201,187	9.5	163,573	7.5
Travel and entertainment	49,388	1.0	56,837	1.2	23,851	0.5	12,443	0.6	6,161	0.3
Professional service fee	22,472	0.5	68,868	1.4	8,404	0.2	3,567	0.2	1,264	0.1
Others	44,215	0.9	37,840	0.8	29,027	0.5	15,468	0.7	10,116	0.4
Total research and development expenses	629,601	13.2	636,614	13.1	430,246	8.7	232,666	11.0	181,114	8.3

Finance Costs

Finance costs consist of interest expenses on bank borrowings, primarily the Privatization Syndicated Loan which was transferred to our Group in December 2015. See Note 9 to the Accountants' Report included in Appendix I to this prospectus for further details of our bank borrowings.

Income Tax Expenses

The following table sets forth a breakdown of our income tax expenses for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2015	2016	2017	2017	2018
			RMB'000		
				(unaudited)	
Current tax:					
Hong Kong profits tax					
—Current year	368	126	802	—	—
PRC enterprise income tax					
—Current year	127,796	106,403	92,440	45,140	20,989
Deferred tax	(40,542)	(39,531)	(4,658)	(26,757)	(2,278)
Total income tax expenses	87,622	66,998	88,584	18,383	18,711

Under the PRC EIT Law and Implementation Regulation of the EIT Law, a uniform 25% EIT rate is generally applied, except where a specific preferential rate applies. AsiaInfo China and AsiaInfo Nanjing were recognized as Key Software Enterprises within National Programming Layout (國家規劃佈局內重點軟件企業) and enjoyed a preferential EIT rate of 10% during the Track Record Period. See Note 10 to "Appendix I—Accountants' Report" to this prospectus for more details.

Our subsidiaries located in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the Track Record Period.

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

Our effective tax rates were 22.0%, 47.5% and 20.9% for 2015, 2016 and 2017, respectively. Our effective tax rate was higher in 2016 primarily because the losses of some of our subsidiaries were not recognized for tax purposes.

We have paid all relevant taxes in accordance with tax regulations and do not have any disputes or unresolved tax issues with the relevant tax authorities.

Discontinued Operations

During the Track Record Period, we operated software business serving telecom operators headquartered in South East Asia, Europe and other regions outside the PRC (the "**International Business**"), which was disposed of in June 2016. The International Business was subsequently acquired by an entity controlled by Dr. Tian. We recorded the results of the International Business as discontinued operations during the Track Record Period. Separately, we acquired AsiaInfo Big Data, which was mainly engaged in the provision of big data software products and services to telecom operators, in December 2017 (the "**Acquisition**"). AsiaInfo Big Data was also engaged in the provision of software products and services that enable government bodies and public institutions to provide e-public services, such as smart city and e-government services (the "**E-public Service Business**"). The major entities comprising the E-public Service Business had been disposed of prior to the completion of the Acquisition. The few remaining contracts of E-public Service Business have been completed as of June 30, 2018. Given that our consolidated financial statements are required to present the results, cash flows and financial position of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, we also recorded the results of the E-public Service Business as discontinued operations during the Track Record Period. See "Relationship with the Controlling Shareholders", Note 12 to "Appendix I—Accountants' Report" for more details.

The following table sets forth the results of discontinued International Business during the periods indicated:

	For the year ended December 31, 2015	For the year ended December 31, 2016
	RMB'000	RMB'000
Discontinued operations:		
Revenue	86,163	23,314
Cost of sales	(283,515)	(125,266)
Gross loss	(197,352)	(101,952)
Other income	—	40
Other gains and losses	9,102	(2,184)
Selling and marketing expenses	(47,800)	(15,212)
Administrative expenses	(2,637)	(1,378)
Research and development expenses	(123,664)	(71,962)
Loss before tax	(362,351)	(192,648)
Income tax expenses	(2,636)	(1,547)
Loss for the year	(364,987)	(194,195)

The following table sets forth the results of discontinued E-public Service Business during the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2015	2016	2017	2017	2018[1]
	RMB'000			(unaudited)	
Discontinued operations:					
Revenue	45,439	91,464	23,197	8,870	986
Cost of sales	(74,872)	(68,021)	(37,970)	(29,191)	(2,265)
Gross (loss) profit	(29,433)	23,443	(14,773)	(20,321)	(1,279)
Other income	25	73	40	22	—
Other gains and losses	(3,175)	(5,515)	35,569	(2,890)	—
Selling and marketing expenses	(15,424)	(56,397)	(23,160)	(14,964)	—
Administrative expenses	(1,577)	(11,192)	(3,439)	(2,364)	—
Research and development expenses	(16,001)	(31,970)	(9,701)	(9,695)	—
Share of results of associates	1,275	(1,321)	(1,573)	(1,351)	—
Share of results of joint ventures	(1,628)	(5,191)	(646)	(589)	—
Loss before tax	(65,938)	(88,070)	(17,683)	(52,152)	(1,279)
Income tax expenses	(1)	(1,014)	—	—	—
Loss for the year/period	(65,939)	(89,084)	(17,683)	(52,152)	(1,279)

1 The major entities comprising the E-public Service Business had been disposed of prior to the completion of the Acquisition. The few remaining contracts of the E-public Service Business have been completely terminated as of June 30, 2018.

NON-HKFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use two non-HKFRS measures, including adjusted EBITDA from continuing operations and adjusted profit for the year/period from continuing operations, as additional financial measures, which are not required by, or presented in accordance with, HKFRS. We believe that these non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain non-recurring, non-cash and/or non-operating items. These items do not serve as useful references in our management's evaluation of our overall operating performance. In addition, amortization of intangible assets arising from acquisitions, one-off listing expenses and interest expenses from the Privatization Syndicated Loan are expected to have limited impact on our results of operations going forward. As such, we are excluding these items from the calculation of adjusted profit, so that this measure could better reflect our overall operating performance and better facilitate the comparison of our operating performance from period to period. The use of adjusted profit has material limitations as an analytic tool as it does not include all non-recurring, non-cash and/or non-operating items that impact on our profit for the relevant year/period. However, our presentation of the adjusted EBITDA from continuing operations and adjusted profit for the year/period from continuing operations may not be comparable to similarly titled measures presented by other companies. You should not consider these non-HKFRS measures in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted EBITDA from continuing operations as EBITDA from continuing operations (which is profit before tax from continuing operations plus finance costs and depreciation and amortization expenses) adjusted by adding back share-based compensation and one-off listing expenses, and excluding gain on disposal of a subsidiary. We define adjusted profit for the year/period from continuing operations as profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off listing expenses and interest expenses for the Privatization Syndicated Loan, and excluding gain on disposal of a subsidiary. The following tables reconcile our adjusted EBITDA from continuing operations and adjusted profit for the year/period from continuing operations for the periods presented to the most directly comparable financial measures calculated and presented in accordance with HKFRS, which are profit before tax and profit (loss) for the year/period from continuing operations:

	For the year ended December 31,			For the six months ended June 30,	
	2015	2016	2017	2017	2018
			RMB'000		
Reconciliation of profit before tax from continuing operations to EBITDA from continuing operations and adjusted EBITDA from continuing operations					
Profit before tax from continuing operations	397,412	141,018	423,760	9,868	105,548
Add:					
Finance costs	6,075	93,905	83,986	48,682	33,855
Depreciation and amortization expenses	195,897	133,731	92,744	48,311	33,322
EBITDA from continuing operations	599,384	368,654	600,490	106,861	172,725
Add:					
Share-based compensation[1]	24,730	35,675	73,489	45,381	24,531
One-off listing expenses	—	—	30,603	—	20,862
Exclude:					
Gain on disposal of a subsidiary	—	48,763	—	—	—
Adjusted EBITDA from continuing operations	624,114	355,566	704,582	152,242	218,118

	For the year ended December 31,			For the six months ended June 30,	
	2015	2016	2017	2017	2018
			RMB'000	(unaudited)	
Reconciliation of profit (loss) for the year/period from continuing operations to adjusted profit for the year/period from continuing operations					
Profit (loss) for the year/period from continuing operations	309,790	74,020	335,176	(8,515)	86,837
Add:					
Share-based compensation[1]	24,730	35,675	73,489	45,381	24,531
Amortization of intangible assets resulting from acquisitions[2]	135,382	93,991	52,331	26,166	17,148
One-off listing expenses	—	—	30,603	—	20,862
Interest expenses for the Privatization Syndicated Loan[3]	118	49,418	56,031	27,489	24,069
Exclude:					
Gain on disposal of a subsidiary	—	48,763	—	—	—
Adjusted profit for the year/period from continuing operations	470,020	204,341	547,630	90,521	173,447
Add:					
Exchange gain/(loss), net	3,561	95,196	(84,029)	(40,127)	27,240
Adjusted profit for the year/period from continuing operations (excluding exchange gain/(loss), net)[4]	473,581	299,537	463,601	50,394	200,687

1. Share-based compensation incurred during the Track Record Period was in connection with share options and RSAs granted under the Previous Stock Incentive Plan adopted by Holdco Cayman.
2. Relating to intangible assets arose from the Linkage Merger and the Hangzhou Cloud Acquisition completed in 2010. Amortization of intangible assets is a non-cash and non-operating item, and its amount has been declining as the balance of intangible assets decreases over time. As intangible assets are amortized on a straight-line or accelerated basis based on their estimated useful lives, which range from one to ten years, starting from 2010, we expect to incur insignificant amounts of amortization of intangible assets resulting from acquisitions in 2019 and 2020, and nil from 2021 onwards.
3. Relating to the Privatization Syndicated Loan which was borrowed in connection with the Privatization and was transferred to our Group in December 2015. We plan to repay the Privatization Syndicated Loan and related U.S. dollar-denominated loans using proceeds from the Global Offering and cash on hand (including pledged bank deposits to be released upon repayment of the corresponding bank loans). We expect to incur an insignificant amount of interest expenses for the Privatization Syndicated Loan in 2019 and nil from 2020 onwards.
4. Exchange gains and losses are associated with fluctuations in exchange rate of the U.S. dollar against Renminbi, which was related to the following non-recurring items: (i) the Privatization Syndicated Loan in the principal amount of US$191.4 million and other related U.S. dollar-denominated bank loans, which will be repaid using proceeds from the Global Offering and cash on hand (including pledged bank deposits released upon repayment of the corresponding bank loans), and (ii) amounts due to/from related parties denominated in U.S. dollars, substantially all of which were of non-trade nature, and all of which had been settled as of September 30, 2018.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenue

Revenue increased by 3.1% from RMB2,123.7 million in the six months ended June 30, 2017 to RMB2,189.7 million in the six months ended June 30, 2018. This increase was primarily attributable to a 6.6% increase in revenue for the Software Business.

Software Business

Revenue for the Software Business increased by 6.6% from RMB2,043.6 million in the six months ended June 30, 2017 to RMB2,177.6 million in the six months ended June 30, 2018, primarily attributable to an increase in revenue from software products and related services, and partially offset by a decrease in other revenues.

Revenue for the Software Business derived from the provision of software products and related services increased by 7.5% from RMB1,935.9 million in the six months ended June 30, 2017 to RMB2,080.7 million in the six months ended June 30, 2018. This increase was primarily due to a 8.5% increase in revenue from telecom operators, from RMB1,865.1 million in the six months ended June 30, 2017 to RMB2,024.1 million in the six months ended June 30, 2018, which was primarily a result of (i) increased demand from existing telecom operator customers, primarily driven by continuous system upgrade and expansion and increase in popularity of our big data products, and (ii) increase in the number of our telecom operator customers. Revenue for the Software Business derived from the provision of software products and related services as a percentage of total revenue was 91.2% and 95.0% in the six months ended June 30, 2017 and 2018, respectively.

Revenue for the Software Business derived from the provision of data-driven operation services increased by 96.3% from RMB13.8 million in the six months ended June 30, 2017 to RMB27.1 million in the six months ended June 30, 2018, primarily due to increased demand from telecom operator customers. Revenue for the Software Business derived from the provision of data-driven operation services as a percentage of total revenue was 0.7% and 1.2% in the six months ended June 30, 2017 and 2018, respectively.

Other revenue for the Software Business decreased by 25.7% from RMB94.0 million in the six months ended June 30, 2017 to RMB69.8 million in the six months ended June 30, 2018, primarily due to a decrease in customer demand for our procurement of third-party hardware and software.

Network Security Business

Revenue for the Network Security Business decreased by 84.9% from RMB80.0 million in the six months ended June 30, 2017 to RMB12.1 million in the six months ended June 30, 2018, as we have ceased to enter into any new contract under the Network Security Transitional Arrangement starting 2018, yet some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing.

Cost of sales

Cost of sales decreased by 1.7% from RMB1,554.2 million in the six months ended June 30, 2017 to RMB1,527.8 million in the six months ended June 30, 2018. The decrease was primarily due to decreased cost of sales for the Network Security Business.

Software Business

Cost of sales for the Software Business increased by 2.7% from RMB1,475.8 million in the six months ended June 30, 2017 to RMB1,516.0 million in the six months ended June 30, 2018. The increase was primarily attributable to an increase in staff costs, which was in line with the continued growth of our business. The increase in cost of sales for the Software Business was partially offset by (i) a decrease in project-related costs, which was due to a decrease in customer demand for our procurement of third-party hardware and software, and (ii) a decrease in other costs, primarily attributable to various cost saving initiatives we implemented.

Network Security Business

Cost of sales for the Network Security Business decreased by 84.9% from RMB78.4 million in the six months ended June 30, 2017 to RMB11.9 million in the six months ended June 30, 2018, as we have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018, yet some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing.

Gross profit and margin

As a result of the foregoing, gross profit increased by 16.2% from RMB569.4 million in the six months ended June 30, 2017 to RMB661.9 million in the six months ended June 30, 2018. Gross margin increased from 26.8% in the six months ended June 30, 2017 to 30.2% in the six months ended June 30, 2018.

Gross profit for the Software Business increased by 16.5% from RMB567.8 million in the six months ended June 30, 2017 to RMB661.6 million in the six months ended June 30, 2018 and gross margin for the Software Business increased from 27.8% in the six months ended June 30, 2017 to 30.4% in the six months ended June 30, 2018. The increases were primarily attributable to (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017. In order to complete these projects as quickly as possible, we involved a larger number of staff in the execution and delivery of these projects in 2017, which led to increased cost of sales and decreased gross margin for the Software Business in the six months ended June 30, 2017, and (ii) our improved efficiency in project execution and delivery in the six months ended June 30, 2018.

Other income

Other income decreased by 29.5% from RMB58.9 million in the six months ended June 30, 2017 to RMB41.5 million in the six months ended June 30, 2018. The decrease was primarily due to a RMB10.9 million decrease in government grants. The decrease was partially offset by a RMB4.6 million increase in interest income from current bank accounts as a result of increased purchase of short-term wealth management products.

Other gains and losses

We incurred other losses of RMB25.0 million in the six months ended June 30, 2018, compared to other gains of RMB42.9 million in the six months ended June 30, 2017, primarily as a result of the fluctuation of the exchange rate between U.S. dollars and Renminbi, which was related to the Privatization Syndicated Loan as well as other U.S. dollar-denominated bank loans.

Selling and marketing expenses

Selling and marketing expenses decreased by 9.6% from RMB204.8 million in the six months ended June 30, 2017 to RMB185.2 million in the six months ended June 30, 2018, primarily attributable to (i) a decrease in the number of our sales and marketing staff as we further streamlined our sales and marketing activities, and (ii) various cost saving initiatives we implemented, such as increased centralization of our procurement activities. Selling and marketing expenses as a percentage of our total revenue decreased from 9.6% in the six months ended June 30, 2017 to 8.5% in the six months ended June 30, 2018.

Administrative expenses

Administrative expenses decreased by 13.1% from RMB174.8 million in the six months ended June 30, 2017 to RMB152.0 million in the six months ended June 30, 2018, primarily due to a RMB24.8 million decrease in staff salaries and benefits, as we terminated the employment of certain staff in an effort to further streamline our operational activities and paid higher severance payments in the six months ended June 30, 2017.

Research and development expenses

Research and development expenses decreased by 22.2% from RMB232.7 million in the six months ended June 30, 2017 to RMB181.1 million in the six months ended June 30, 2018, primarily due to a decrease in staff salaries and benefits, as we further streamlined our R&D activities to focus on R&D activities primarily in the areas of data-driven operation services, IoT and intelligent networks, which are consistent with our growth strategies, and discontinued certain R&D activities which were no longer aligned with our growth strategies.

Finance costs

Finance costs decreased by 30.5% from RMB48.7 million in the six months ended June 30, 2017 to RMB33.9 million in the six months ended June 30, 2018, primarily due to a decrease in our bank borrowing, as we repaid all RMB-denominated bank loans in the second half of 2017.

Profit before tax

As a result of the foregoing, our profit before tax increased significantly from RMB9.9 million in the six months ended June 30, 2017 to RMB105.5 million in the six months ended June 30, 2018.

Income tax expenses

Our income tax expenses remained relatively stable at RMB18.4 million and RMB18.7 million in the six months ended June 30, 2017 and June 30, 2018, respectively.

Profit (loss) for the period from continuing operations

As a result of the foregoing, we incurred a RMB86.8 million profit for the period from continuing operations in the six months ended June 30, 2018, compared to a RMB8.5 million loss for the period from continuing operations in the six months ended June 30, 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Revenue increased by 1.9% from RMB4,856.0 million in 2016 to RMB4,948.3 million in 2017, primarily attributable to a 6.9% increase in revenue for the Software Business. The increase was partially offset by a 63.8% decrease in revenue for the Network Security Business.

Software Business

Revenue for the Software Business increased by 6.9% from RMB4,514.6 million in 2016 to RMB4,824.9 million in 2017, primarily attributable to an increase in revenue from software products and related services, and partially offset by a decrease in other revenue.

Revenue for the Software Business derived from the provision of software products and related services increased by 8.9% from RMB4,170.8 million in 2016 to RMB4,541.5 million in 2017. This increase was primarily due to a 9.3% increase in revenue from telecom operators from RMB4,012.1 million in 2016 to RMB4,385.7 million in 2017, which was primarily as a result of (i) increase in the number of our telecom operator customers from 181 as of December 31, 2016 to 193 as of December 31, 2017, and (ii) increased demand from existing telecom operator customers, primarily driven by continuous system upgrade and expansion and increase in popularity of our big data products. To a lesser extent, the increase was attributable to a 33.0% increase in revenue from large enterprises from RMB74.2 million in 2016 to RMB98.7 million in 2017, which was primarily a result of increase in the number of large enterprise customers and increased demand from these customers. The increase was partially offset by a 32.5% decrease in revenue from small- to medium-sized enterprises from RMB84.5 million in 2016 to RMB57.0 million in 2017, primarily because we shifted our non-telecom enterprise market's strategic focus from small- to medium-sized enterprises to large enterprises, and ceased to collaborate with certain small- to medium-sized enterprise customers in 2017. Revenue for the Software Business derived from the provision of software products and related services as a percentage of total revenue was 85.9% and 91.8% in 2016 and 2017, respectively.

Revenue for the Software Business derived from the provision of data-driven operation services increased by 33.0% from RMB31.4 million in 2016 to RMB41.7 million in 2017, primarily due to increased demand from telecom operator customers. Revenue for the Software Business derived from the provision of data-driven operation services as a percentage of total revenue was 0.6% and 0.8% in 2016 and 2017, respectively.

Other revenue for the Software Business decreased by 22.7% from RMB312.5 million in 2016 to RMB241.7 million in 2017, primarily due to a decrease in customer demand for our procurement of third-party hardware and software.

Network Security Business

Revenue for the Network Security Business decreased by 63.8% from RMB341.3 million in 2016 to RMB123.4 million in 2017, primarily due to a decrease in Network Security Transitional Arrangement in 2017.

Cost of sales

Cost of sales increased by 3.0% from RMB3,183.3 million in 2016 to RMB3,277.9 million in 2017, primarily due to an increase in cost of sales for the Software Business. The increase was partially offset by a decrease in cost of sales for the Network Security Business.

Software Business

Cost of sales for the Software Business increased by 10.8% from RMB2,848.9 million in 2016 to RMB3,156.9 million in 2017. The increase was primarily attributable to a RMB418.8 million increase in staff costs, primarily due to the following reasons: (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017, and we involved a larger number of staff in the execution and delivery of these projects in 2017 in order to complete these projects as quickly as possible, (ii) we involved a larger number of staff in the execution and delivery of an increasing number of large-scale, complex projects in 2017, and (iii) we paid higher bonuses in 2017 to incentivize our employees. The increase in cost of sales for the Software Business was partially offset by a RMB108.5 million decrease in project-related costs, primarily attributable to (i) a decrease in customer demand for our procurement of third-party hardware and software in 2017, and (ii) our enhanced cost control and the various cost saving initiatives we implemented in 2017, such as increased centralization of our procurement activities.

Network Security Business

Cost of sales for the Network Security Business decreased by 63.8% from RMB334.5 million in 2016 to RMB121.0 million in 2017, primarily due to a decrease in Network Security Transitional Arrangement in 2017.

Gross profit and margin

Gross profit was RMB1,672.6 million and RMB1,670.4 million in 2016 and 2017, respectively, and gross margin decreased slightly from 34.4% in 2016 to 33.8% in 2017.

Gross profit for the Software Business increased RMB1,665.8 million in 2016 to RMB1,668.0 million in 2017, and gross margin for the Software Business decreased from 36.9% in 2016 to 34.6% in 2017. The decrease was primarily because (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017. In order to complete these projects as quickly as possible, we involved a larger number of staff in the execution and delivery of these projects in 2017, resulting in increased cost of sales for these projects, and (ii) we involved a larger number of staff in the execution and delivery of an increasing number of large-scale, complex projects in 2017, which also caused our cost of sales to increase.

Other income

Other income decreased by 19.1% from RMB141.8 million in 2016 to RMB114.7 million in 2017. The decrease was primarily due to a decrease in income from management support services, because we provided less legal support, human resources, management system and network, daily administrations and other management services to AsiaInfo Chengdu and a few other related parties as they gradually built up their own operational capabilities.

Other gains and losses

We incurred other gains of RMB68.8 million in 2017, compared to other losses of RMB45.2 million in 2016. The change was primarily as a result of the fluctuation of the exchange rate between U.S. dollars and Renminbi, which was related to the Privatization Syndicated Loan as well as other U.S. dollar-denominated bank loans.

Selling and marketing expenses

Selling and marketing expenses decreased by 21.6% from RMB614.6 million in 2016 to RMB481.8 million in 2017, primarily attributable to (i) a decrease in the number of our sales and marketing staff in 2017 as we ceased to collaborate with certain small-to medium-sized enterprise customers and further streamlined our sales and marketing activities, and (ii) various cost saving initiatives we implemented in 2017, such as further increased centralization of our procurement activities. Selling and marketing expenses as a percentage of our total revenue decreased from 12.7% in 2016 to 9.7% in 2017.

Administrative expenses

Administrative expenses increased by 47.9% from RMB273.1 million in 2016 to RMB403.8 million in 2017, primarily as a result of a RMB119.1 million increase in staff salaries and benefits, which was primarily due to (i) increased severance payments, as we terminated the employment of certain staff in 2017 in an effort to further streamline our operational activities, and (ii) we paid a higher amount of bonuses in 2017 to incentivize our employees.

Research and development expenses

Research and development expenses decreased by 32.4% from RMB636.6 million in 2016 to RMB430.2 million in 2017. The decrease was primarily due to reduced R&D activities. In 2017, we ceased to collaborate with certain small-to medium-sized enterprise customers and further streamlined our R&D activities to focus on R&D activities primarily in the areas of data-driven operation services and intelligent networks, which were consistent with our growth strategies, and discontinued certain R&D activities which were no longer aligned with our growth strategies.

Finance costs

Finance costs decreased by 10.6% from RMB93.9 million in 2016 to RMB84.0 million in 2017, primarily due to a decrease in our bank borrowings.

Profit before tax

As a result of the foregoing, profit before tax increased significantly from RMB141.0 million in 2016 to RMB423.8 million in 2017.

Income tax expenses

Income tax expenses increased by 32.2% from RMB67.0 million in 2016 to RMB88.6 million in 2017, primarily due to increased taxable income.

Profit for the year from continuing operations

As a result of the foregoing, profit for the year from continuing operations increased significantly from RMB74.0 million in 2016 to RMB335.2 million in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue

Revenue increased by 1.9% from RMB4,764.9 million in 2015 to RMB4,856.0 million in 2016, primarily attributable to a 5.6% increase in revenue for the Software Business. The increase was partially offset by a 30.3% decrease in revenue for the Network Security Business.

Software Business

Revenue for the Software Business increased by 5.6% from RMB4,275.2 million in 2015 to RMB4,514.6 million in 2016, primarily attributable to an increase in revenue from software products and related services.

Revenue for the Software Business derived from the provision of software products and related services increased by 4.4% from RMB3,996.7 million in 2015 to RMB4,170.8 million in 2016. This increase was primarily due to a 3.5% increase in revenue from telecom operators from RMB3,877.8 million in 2015 to RMB4,012.1 million in 2016, which was primarily driven by increased demand from telecom operator customers. To a lesser extent, the increase was attributable to a 60.1% increase in revenue from large enterprise customers from RMB46.4 million in 2015 to RMB74.2 million in 2016, as we shifted our non-telecom enterprise markets' strategic focus from small- to medium-sized enterprises to large enterprises since the second half of 2016. Revenue for the Software Business derived from the provision of software products and related services as a percentage of total revenue was 83.9% and 85.9% in 2015 and 2016, respectively.

Revenue for the Software Business derived from the provision of data-driven operation services increased by 73.7% from RMB18.1 million in 2015 to RMB31.4 million in 2016. This increase was primarily due to increased demand from telecom operator customers. Revenue for the Software Business derived from the provision of data-driven operation services as a percentage of total revenue was 0.4% and 0.6% in 2015 and 2016, respectively.

Other revenue for the Software Business increased by 20.0% from RMB260.5 million in 2015 to RMB312.5 million in 2016, primarily due to an increase in customer demand for our procurement of third-party hardware and software.

Network Security Business

Revenue for the Network Security Business decreased by 30.3% from RMB489.6 million in 2015 to RMB341.3 million in 2016. The decrease was primarily due to decrease in scale of our Network Security Business, as we disposed of AsiaInfo Chengdu, the principal entity operating the Network Security Business, in late 2015. See "Business—Our Products and Services—Others—Network Security Business" for more details.

Cost of Sales

Cost of sales increased by 6.4% from RMB2,991.2 million in 2015 to RMB3,183.3 million in 2016, primarily due to a 6.7% increase in cost of sales for the Software Business.

Software Business

Cost of sales for the Software Business increased by 6.7% from RMB2,669.7 million in 2015 to RMB2,848.9 million in 2016, primarily attributable to a RMB234.5 million increase in project-related costs, which was in line with the continued growth of our business.

Network Security Business

Cost of sales for the Network Security Business increased by 4.0% from RMB321.5 million in 2015 to RMB334.5 million in 2016, primarily due to decrease in scale of the Network Security Business.

Gross profit and margin

As a result of the foregoing, gross profit decreased by 5.7% from RMB1,773.6 million in 2015 to RMB1,672.6 million in 2016, and gross margin decreased from 37.2% in 2015 to 34.4% in 2016.

Gross profit for the Software Business increased by 3.8% from RMB1,605.5 million in 2015 to RMB1,665.8 million in 2016, and gross margin for the Software Business remained relatively stable at 37.6% and 36.9% in 2015 and 2016, respectively.

Other income

Other income increased by 53.7% from RMB92.3 million in 2015 to RMB141.8 million in 2016. The increase was primarily due to (i) a RMB40.7 million increase in income from management support services, which was primarily due to increased legal support, human resources, management system and network, daily administrations and other management services we provided to AsiaInfo Chengdu in 2016: as AsiaInfo Chengdu was disposed of in late 2015, we only provided management support services to AsiaInfo Chengdu for November and December 2015, yet we provided such services to AsiaInfo Chengdu for the full year of 2016, and (ii) a RMB16.1 million increase in interest income from related parties.

Other gains and losses

Other losses increased from RMB4.1 million in 2015 to RMB45.2 million in 2016, primarily as a result of a RMB95.2 million exchange loss in 2016 associated with fluctuation in exchange rate between U.S. dollars and Renminbi, which was primarily related to the Privatization Syndicated Loan which was transferred to our Group in December 2015, partially offset by a RMB48.8 million gain on disposal of a subsidiary in 2016.

Selling and marketing expenses

Selling and marketing expenses increased by 7.3% from RMB572.9 million in 2015 to RMB614.6 million in 2016, primarily due to an RMB48.3 million increase in salaries and benefits for our sales and marketing staff, primarily due to an increase in headcount of our sales and marketing staff as we continued to expand our business and fine-tune our growth strategies. Selling and marketing expenses as a percentage of our total revenue increased from 12.0% in 2015 to 12.7% in 2016.

Administrative expenses

Administrative expenses increased by 6.8% from RMB255.8 million in 2015 to RMB273.1 million in 2016, primarily due to an RMB34.1 million increase in staff salaries and benefits as a result of increased headcount of our administrative staff.

Research and development expenses

Research and development expenses remained relatively stable at RMB629.6 million and RMB636.6 million in 2015 and 2016, respectively.

Finance costs

Finance costs increased significantly from RMB6.1 million in 2015 to RMB93.9 million in 2016, primarily due to the increase in interest payment in 2016 as a result of increase in bank borrowings, which was primarily related to (i) the transfer of the Privatization Syndicated Loan to our Group in December 2015, and (ii) an increase in RMB-denominated bank borrowings to meet our working capital needs.

Profit before tax

As a result of the foregoing, profit before tax decreased by 64.5% from RMB397.4 million in 2015 to RMB141.0 million in 2016.

Income tax expenses

Income tax expenses decreased by 23.5% from RMB87.6 million in 2015 to RMB67.0 million in 2016, as a result of decreased taxable income. The decrease was partially offset by the fact that the losses of some of our subsidiaries incurred in 2016 were not recognized for tax purposes.

Profit for the year from continuing operations

As a result of the foregoing, profit for the year from continuing operations decreased by 76.1% from RMB309.8 million in 2015 to RMB74.0 million in 2016.

NET CURRENT ASSETS (LIABILITIES)

Our consolidated statements of financial position as of December 31, 2015 also include results of the discontinued operations. Our consolidated statements of financial position as of December 31, 2016 also include results of the E-public Service Business.

The following table sets forth our current assets, current liabilities and net current assets (liabilities) as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2015	2016	2017	2018	2018
			RMB'000		
					(unaudited)
Current assets:					
Inventories	31,817	2,297	7,100	2,697	242
Trade and notes receivables	787,491	775,888	888,445	825,646	888,685
Prepayments, deposits and other receivables	154,345	204,335	176,501	209,638	186,790
Available-for-sale investments	—	20,000	3,665	—	60,000
Derivative financial instruments	749	—	—	—	—
Contract assets	1,650,905	1,683,234	1,632,039	1,522,157	1,374,935
Amounts due from fellow subsidiaries	142,947	193,785	246,244	28,011	10,695
Amounts due from an associate	14	13,203	—	—	—
Amounts due from intermediate holding companies	—	—	5,645	—	—
Pledged bank deposits	230,704	523,770	537,089	418,174	363,269
Bank balances and cash	1,409,205	1,583,120	1,450,588	633,378	772,879
Total current assets	4,408,177	4,999,632	4,947,316	3,639,701	3,657,495
Current liabilities:					
Trade and notes payables	601,778	792,246	612,500	502,550	367,825
Contract liabilities	647,356	533,536	387,913	272,939	245,512
Other payables, deposits received and accrued expenses	1,540,866	1,611,040	1,890,500	1,638,968	1,773,737
Amount due to a joint venture	—	2,482	—	—	—
Amounts due to fellow subsidiaries	278,404	290,712	200,672	61,588	41,269
Amount due to the then intermediate holding company	—	5,134	—	—	—
Amount due to the then immediate holding company	—	—	—	5,248	—
Income tax payable	125,183	201,770	238,820	213,932	204,396
Bank borrowings	422,352	1,237,502	1,154,593	1,793,139	1,943,108
Total current liabilities	3,615,939	4,674,422	4,484,998	4,488,364	4,575,847
Net current assets (liabilities)	792,238	325,210	462,318	(848,663)	(918,352)

Our net current liabilities increased from RMB848.7 million as of June 30, 2018 to RMB918.4 million (unaudited) as of October 31, 2018 (the "**Indebtedness Date**"). The increase in net current liabilities was primarily due to (i) a RMB150.0 million increase in bank borrowings, which was primarily due to the fluctuation in exchange rate of the U.S. dollar against Renminbi, (ii) a RMB147.2 million decrease in contract assets; and (iii) a RMB134.8 million increase in other payables, deposits received and accrued expenses. The decrease was partially offset by (i) a RMB139.5 million increase in bank balances and cash, which was primarily in line with our business growth, (ii) a RMB60.0 million increase in available-for-sale investments, and (iii) a RMB134.7 million decrease in trade and notes payables.

We had net current liabilities of RMB848.7 million as of June 30, 2018, compared to net current assets of RMB462.3 million as of December 31, 2017. The change in our financial position was primarily due to a decrease in our current assets, which was the result of (i) a decrease in bank balances and cash, and (ii) our settlement of amounts due to/from related parties in 2018. The decrease in bank balances and cash was primarily due to (i) a RMB547.7 million increase in non-current pledged bank deposits, which were used to secure the refinanced Privatization Syndicated Loan, and (ii) acquisition of additional equity interests in a subsidiary of RMB160.0 million.

Our net current assets increased from RMB325.2 million as of December 31, 2016 to RMB462.3 million as of December 31, 2017. This increase was primarily due to (i) a RMB179.7 million decrease in trade and notes payables, as a result of more efficient settlement with our suppliers, (ii) a RMB145.6 million decrease in contract liabilities, and (iii) a RMB112.6 million increase in trade and notes receivables, which was in line with our business growth. This increase was partially offset by a RMB279.5 million increase in other payables, deposits received and accrued expenses and a RMB132.5 million decrease in bank balances and cash.

Our net current assets decreased from RMB792.2 million as of December 31, 2015 to RMB325.2 million as of December 31, 2016. This decrease was primarily due to a RMB815.2 million increase in current bank borrowings. This decrease was partially offset by a RMB293.1 million increase in pledged bank deposits.

Working Capital Sufficiency

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash generated from operations and bank borrowings. We manage our cash flow and working capital by closely monitoring and managing our operations and expansion plans. We also diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Our available financial resources include: (i) bank balances and cash, which amounted to RMB633.4 million and RMB772.9 million (unaudited) as of June 30, 2018 and October 31, 2018, respectively, (ii) pledged bank deposits securing our bank borrowings, primarily comprised of the refinanced Privatization Syndicated Loan, amounting to RMB889.0 million and RMB922.2 million (unaudited) as of June 30, 2018 and October 31, 2018, respectively, which will be released as the corresponding bank borrowings get repaid, (iii) committed and unutilized banking facilities, which amounted to RMB606.7 million and RMB257.5 million (unaudited) as of June 30, 2018 and October 31, 2018, respectively, and (iv) the estimated net proceeds from the issuance of new Shares in the Global Offering (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below HK$10.50, being the low end of the Offer Price range). Taking into account these financial resources available to us, our Directors are of the view that we have sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this prospectus. After due consideration and discussion with the Company's management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditure, the Joint Sponsors concur with the view of our Directors.

CERTAIN BALANCE SHEET ITEMS

Inventories

Our inventories predominantly include third-party hardware, equipment and software we procure for some of our projects. The table below sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000			
Computer hardware, equipment and software products	31,817	2,297	7,100	2,697

As of December 31, 2015, 2016 and 2017 and June 30, 2018, our inventory balance was RMB31.8 million, RMB2.3 million, RMB7.1 million and RMB2.7 million, respectively. The fluctuation in our inventory balance was primarily due to the fluctuation in customer demand for our procurement of third-party hardware and software on their behalf.

The following table sets forth the turnover days of our inventories for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2015	2016	2017	2018
Turnover days of inventories[1]	4.7	2.0	0.5	0.6

(1) Turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by 365 days or the numbers of days for the given period. The turnover days of inventories for the six months ended June 30, 2018 equals the arithmetic mean of the opening and closing balances of inventories for the relevant period divided by cost of sales and multiplied by 180 days.

Our inventory turnover days remained relatively stable at 2.0 days, 0.5 days and 0.6 days in 2016, 2017 and the six months ended June 30, 2018. Our inventory turnover days decreased from 4.7 days in 2015 to 2.0 days in 2016, as we procured an increasing amount of third-party hardware and software toward the end of year 2015 due to increased customer demand.

As of October 31, 2018, RMB2.5 million (unaudited), or 91.0%, of our inventory balance amount as of June 30, 2018 had been sold or utilized.

Trade and notes receivables

Our trade and notes receivables represent outstanding trade and notes receivables from our customers for the purchase of our products or services. We generally grant credit terms of 30 days to our customers. Trade and notes receivables are unsecured and non-interest-bearing. We seek to maintain strict control over our outstanding trade and notes receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimize credit risk.

The following table sets forth a summary of our trade and notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000			
Trade and notes receivables:				
Trade receivables	764,363	769,390	838,890	833,608
Notes receivables	27,777	11,813	56,638	7,339
Less: allowance for doubtful debts	(4,649)	(5,315)	(7,083)	(15,301)
Total	787,491	775,888	888,445	825,646

Our trade and notes receivables decreased by 7.1% from RMB888.4 million as of December 31, 2017 to RMB825.6 million as of June 30, 2018, mainly reflecting a RMB49.3 million decrease in notes receivables and a RMB5.3 million decrease in trade receivables, which was primarily due to seasonality, as we typically experience a slow-down in our project development process and payment settlement process during the first quarter of the year due to the Chinese New Year holidays. The increase in allowance for doubtful debts from RMB7.1 million as of December 31, 2017 to RMB15.3 million as of June 30, 2018 was primarily resulted from our adoption of HKFRS 9 on January 1, 2018. See "—Significant Accounting Policies and Estimates—Financial Instruments (Before the adoption of HKFRS 9 on January 1, 2018)" and "—Financial Instruments (under HKFRS 9)" for more details.

Our trade and notes receivables increased by 14.5% from RMB775.9 million as of December 31, 2016 to RMB888.4 million as of December 31, 2017, mainly reflecting a RMB69.5 million increase in trade receivables and a RMB44.8 million increase in notes receivables, which was in line with the continued growth of our business.

Our trade and notes receivables remained relatively stable at RMB787.5 million and RMB775.9 million as of December 31, 2015 and 2016, respectively.

As of October 31, 2018, approximately RMB660.8 million (unaudited), or 80.0% of our trade and notes receivables (before provision for impairment of trade losses) outstanding as of June 30, 2018 had been settled.

The following table sets forth an aging analysis of our trade and notes receivables (net of allowance for doubtful debts) as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000			
1–30 days	488,818	492,768	511,500	441,197
31–90 days	137,286	164,904	184,986	173,403
91–180 days	124,700	77,551	113,042	81,430
181–365 days	25,943	30,359	65,755	105,377
Over 365 days	10,744	10,306	13,162	24,239
Total	787,491	775,888	888,445	825,646

Aging analysis of the trade receivables that are past due but not individually nor collectively considered to be impaired is as follows:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000			
1–90 days	194,795	213,095	255,585	231,694
91–180 days	58,625	32,479	64,863	81,145
181–365 days	21,720	20,317	41,893	57,324
Over 365 days	6,557	7,594	6,541	18,173
Total	281,697	273,485	368,882	388,336

We provide allowance for trade receivables based on the evaluation of collectability and aging analysis. Certain judgment is applied in assessing the ultimate realization of these receivables, including the customers' creditworthiness and past collection history.

The following table sets forth the turnover days of our trade and notes receivables for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2015	2016	2017	2018
Turnover days of trade and notes receivables[(1)]	64.6	58.8	61.4	70.5

(1) Turnover days of trade and notes receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes receivables for the relevant period by revenues and multiplying by 365 days or the numbers of days for the given period. Turnover days of trade and notes receivables for the six months ended June 30, 2018 equals the arithmetic mean of the opening and closing balances of trade and notes receivables for the relevant period divided by revenue and multiplied by 180 days.

Our trade and notes receivables turnover days remained relatively stable at 64.6 days, 58.8 days and 61.4 days in 2015, 2016 and 2017, respectively. Our trade and notes receivables turnover days increased from 61.4 days in 2017 to 70.5 days in the six months ended June 30, 2018, primarily due to seasonality, as we typically experience a slow-down in our project development process and payment settlement process with customers during the first quarter of the year due to Chinese New Year holidays.

Trade and notes payables

Our trade and notes payables represent outstanding trade and notes payables to third-party hardware and software suppliers and outsourcing service providers.

Our trade and notes payables decreased by 18.0% from RMB612.5 million as of December 31, 2017 to RMB502.6 million as of June 30, 2018, primarily due to a RMB97.3 million decrease in trade payables, as a result of (i) more efficient settlement with our suppliers, and (ii) decreased customer demand for our procurement of third-party hardware and software.

Our trade and notes payables decreased by 22.7% from RMB792.2 million as of December 31, 2016 to RMB612.5 million as of December 31, 2017, primarily due to a RMB181.2 million decrease in trade payables, as a result of more efficient settlement with our suppliers.

Our trade and notes payables increased by 31.7% from RMB601.8 million as of December 31, 2015 to RMB792.2 million as of December 31, 2016, primarily due to a RMB115.4 million increase in trade payables and a RMB75.1 million increase in notes payables, which was in line with the continued growth of our business.

The following table sets forth a summary of our trade and notes payables as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000			
Trade and notes payables:				
Trade payables	595,677	711,050	529,808	432,550
Notes payables	6,101	81,196	82,692	70,000
Total	601,778	792,246	612,500	502,550

The following table sets forth the aging analysis of trade and notes payables as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000			
1–90 days	332,417	325,900	233,444	123,196
91–180 days	166,744	72,117	84,739	102,142
181–365 days	73,467	216,091	74,079	67,626
1–2 years	17,492	166,480	173,673	111,684
Over 2 years	11,658	11,658	46,565	97,902
Total	601,778	792,246	612,500	502,550

Our average credit period on purchases of goods and services is 90 days.

The following table sets forth the turnover days of our trade and notes payables for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2015	2016	2017	2018
Turnover days of trade and notes payables(1)	45.0	79.9	78.2	65.7

(1) Turnover days of trade and notes payables is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant period by cost of sales, and multiplying by 365 days or the numbers of days for the given period. The turnover days of trade and notes payables for the six months ended June 30, 2018 equals the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant period divided by cost of sales, and multiplied by 180 days.

Our trade and notes payable turnover days remained relatively stable at 79.9 days and 78.2 days in 2016 and 2017, respectively. Our trade and notes payable turnover days decreased from 78.2 days in 2017 to 65.7 days in the six months ended June 30, 2018, primarily as a result of (i) more efficient settlement with our suppliers, and (ii) decreased customer demand for our procurement of third-party hardware and software. Our trade and notes payable turnover days was relatively lower in 2015, as we procured a smaller amount of third-party hardware and software for certain of our projects in 2014 due to lower customer demand.

As of October 31, 2018, approximately RMB290.1 million (unaudited), or 57.7% of our trade and notes payable outstanding as of June 30, 2018 had been settled.

Other payables, deposits received and accrued expenses

Other payables, deposits received and accrued expenses primarily include accrued payroll and welfare for our staff.

The following table sets forth a summary of our other payables, deposits received and accrued expenses for the periods indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
		RMB'000		
Accrued payroll and welfare	1,324,852	1,399,315	1,601,912	1,448,330
Accrued expenses	87,932	87,158	122,336	73,454
Other tax payables	63,247	71,538	85,601	30,188
Accrued listing expenses and issue cost	—	—	31,153	40,242
Employee reimbursement payable	21,451	21,984	19,607	12,732
Advance from customers	11,293	15,064	14,148	16,513
Other payable	13,828	5,970	3,352	6,961
Accrued liabilities	16,512	6,951	3,665	4,775
Others	1,751	3,060	8,726	5,773
	1,540,866	1,611,040	1,890,500	1,638,968

Contract assets and contract liabilities

Contract assets represent our rights to receive consideration for contract work completed and not yet billed, because such rights are conditioned on our future performance in achieving specific contract milestones. Contract assets are transferred to trade receivables when the rights to receive consideration become unconditional, typically on the date of issuance of acceptance reports by our customers. The remaining rights to receive consideration or performance obligations under a particular contract are accounted for and presented on a net basis, either as contract assets or as contract liabilities.

The following table sets forth a summary of our contract assets and contract liabilities for the periods indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
		RMB'000		
Analyzed for reporting purposes as follows:				
Contract assets	1,650,905	1,683,234	1,632,039	1,522,157
Contract liabilities	(647,356)	(533,536)	(387,913)	(272,939)

As of October 31, 2018, approximately RMB844.7 million (unaudited), or 55.5% of our contract assets (before impairment provision) as of June 30, 2018 had been billed.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through cash and cash equivalents on hand, cash generated from operations and bank borrowings. Our cash requirements primarily relate to operating activities, research and development, repayment of liabilities and capital expenditures. We do not anticipate any changes to the availability of financing to fund our operations in the future, although there is no assurance that we will be able to access any financing on favorable terms or at all.

Cash Flows

Our consolidated statements of cash flows for 2015 and 2016 also include results of the discontinued operations. Our consolidated statements of cash flows for 2017 also include results of the E-public Service Business.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2015	2016	2017	2017	2018
			RMB '000	(unaudited)	
Net cash generated from (used in) operating activities	327,079	221,784	510,417	(710,905)	(189,577)
Net cash (used in) generated from investing activities	(162,430)	(274,261)	(65,710)	91,987	(423,475)
Net cash generated from (used in) financing activities	194,929	203,708	(552,516)	(382,995)	(195,478)
Cash and cash equivalents at beginning of year/ period	1,018,879	1,409,205	1,583,120	1,583,120	1,450,588
Cash and cash equivalents at the end of year/period	1,409,205	1,583,120	1,450,588	580,365	633,378

Our operating cash flow improved in the six months ended June 30, 2018 compared to the same period in 2017. However, we incurred net cash used in operating activities of RMB189.6 million in the six months ended June 30, 2018, primarily as a result of seasonality. Due to telecom operators' project management schedules, we typically experience faster payment settlement process with our telecom operator customers in the second half of the year, resulting in seasonal fluctuations in our operating cash flows.

The net cash used in investing activities in the six months ended June 30, 2018 was primarily due to a RMB428.8 million increase in pledged bank deposits, which was primarily use to secure the one-off refinancing of the Privatization Syndicated Loan in the principal amount of US$191.4 million in the first quarter of 2018.

Operating activities

Our net cash used in operating activities in the six months ended June 30, 2018 was RMB189.6 million. Our operating cash flow improved in the six months ended June 30, 2018 compared to the same period in 2017. However, we incurred net cash used in operating activities in the six months ended June 30, 2018 primarily as a result of seasonality. Due to telecom operators' project management schedules, we typically experience faster payment settlement process with our telecom operator customers in the second half of the year, resulting in seasonal fluctuations in our operating cash flows. Our cash outflow for the six months ended June 30, 2018 was primarily attributable to our profit for the period of RMB105.5 million, as adjusted to reflect loss before taxation from discontinued operations of RMB1.3 million, non-cash items (which primarily comprised of depreciation and amortization of RMB33.3 million and share-based compensation expenses of RMB24.5 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB271.3 million decrease in other payables, deposits received and accrued expenses, a RMB115.0 million decrease in contract liabilities and a RMB110.0 million decrease in trade and notes payable.

Our net cash generated from operating activities in 2017 was RMB510.4 million. This cash inflow was primarily attributable to our profit for the year of RMB423.8 million, as adjusted to reflect loss before taxation from discontinued operations of RMB17.2 million, non-cash items (which primarily comprised of depreciation and amortization of RMB93.1 million and share-based compensation expenses of RMB73.5 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB525.5 million increase in other payables, deposits received and accrued expenses, a RMB153.9 million decrease in trade and notes payables due to decreased customer demand for our procurement of third-party hardware and software, a RMB133.8 million increase in trade and notes receivables and a RMB131.3 million decrease in contract liabilities.

Our net cash generated from operating activities in 2016 was RMB221.8 million. This cash inflow was primarily attributable to our profit for the year of RMB141.0 million, as adjusted to reflect loss before taxation from discontinued operations of RMB292.3 million, non-cash items (which primarily comprised of depreciation and amortization of RMB136.1 million and share-based compensation expenses of RMB35.7 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB223.8 million increase in other payables, deposits received and accrued expenses, a RMB195.3 million increase in trade and notes payables and a RMB135.4 million increase in prepayment, deposits and other receivables.

Our net cash generated from operating activities in 2015 was RMB327.1 million. This cash inflow was primarily attributable to our profit for the year of RMB397.4 million, as adjusted to reflect loss before taxation from discontinued operations of RMB417.8 million, non-cash items (which primarily comprised of depreciation and amortization of RMB197.4 million and share-based compensation expenses of RMB25.7 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB637.0 million increase in contract assets, a RMB371.0 million increase in amounts due to fellow subsidiaries, a RMB358.2 million increase in other payables, deposits received and accrued expenses and a RMB343.0 million increase in contract liabilities.

Investing activities

Our net cash used in investing activities in the six months ended June 30, 2018 was RMB423.5 million. This cash outflow was primarily attributable to placement of pledged bank deposits of RMB693.7 million and was partially offset by withdrawal of pledged bank deposits of RMB264.9 million, which was primarily in relation to the refinancing of the Privatization Syndicated Loan in the first quarter of 2018.

Our net cash used in investing activities in 2017 was RMB65.7 million. This cash outflow was primarily attributable to placement of pledged bank deposits of RMB179.2 million, advance to related parties of RMB67.0 million and payment for investment in associates of RMB56.0 million. This cash outflow was partially offset by withdrawal of pledged bank deposits of RMB197.2 million and repayment from related parties of RMB45.8 million.

Our net cash used in investing activities in 2016 was RMB274.3 million. This cash outflow was primarily attributable to placement of pledged bank deposits of RMB342.3 million, advance to related parties of RMB36.5 million and purchases of property, plant and equipment of RMB27.7 million. This cash outflow was partially offset by repayment from related parties of RMB103.6 million.

Our net cash used in investing activities in 2015 was RMB162.4 million. This cash outflow was primarily attributable to advance to related parties of RMB80.9 million, payment for land use rights of a piece of land of RMB57.8 million and purchase of property, plant and equipment of RMB56.4 million. This cash outflow was partially offset by proceeds on disposal of available-for-sale investments, which was in relation to wealth management produces we purchased, of RMB60.1 million.

Financing activities

Our net cash used in financing activities in the six months ended June 30, 2018 was RMB195.5 million. The cash outflow was primarily attributable to repayment of bank borrowings of RMB1,168.3 million and acquisition of additional equity interests in a subsidiary of RMB160.0 million, partially offset by new bank borrowings raised of RMB1,183.9 million, as we refinanced the Privatization Syndicated Loan, which was secured by equity interest, with bank loans secured by pledged bank deposits in the first quarter of 2018.

Our net cash used in financing activities in 2017 was RMB552.5 million. The cash outflow was primarily attributable to repayment of bank borrowings of RMB1,935.2 million, partially offset by new bank borrowings raised of RMB1,515.5 million.

Our net cash generated from financing activities in 2016 was RMB203.7 million. The cash inflow was primarily attributable to new bank borrowings raised of RMB1,619.9 million, partially offset by repayment of bank borrowing of RMB899.8 million.

Our net cash generated from financing activities in 2015 was RMB194.9 million. The cash inflow was primarily attributable to new bank borrowings raised of RMB443.0 million, partially offset by repayment to related parties of RMB245.2 million and repayment of bank borrowings of RMB226.2 million.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditures

Our capital expenditures principally comprise expenditures for purchases of property, plant and equipment and long-term investments. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from operating activities. The following table sets out our capital expenditures for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2015	2016	2017	2018
	RMB'000			
Purchase of property, plant and equipment	56,377	27,692	10,289	10,616
Purchase of intangible assets	7,729	9,461	1,659	2,258
Payment for land use rights	57,787	—	—	—
Long-term investments	18,870	13,000	56,000	—
Total capital expenditure	140,763	50,153	67,948	12,874

Capital expenditures amounted to RMB140.8 million, RMB50.2 million, RMB67.9 million and RMB12.9 million in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively. Capital expenditure in 2015 was primarily related to purchase of property, plant and equipment and payment for land use rights. Capital expenditure in 2016 was primarily related to purchase of property, plant and equipment. Capital expenditure in 2017 was primarily related to purchase of long-term investments. Capital expenditure in the six months ended June 30, 2018 was related to our purchase of property, plant and equipment and intangible assets.

Capital Commitments

We have capital commitments with respect to acquisition of property, plant and equipment. The following table sets forth our capital expenditures contracted for but not provided in the consolidated financial statements at the end of the periods indicated.

	As of December 31,			As of June 30,
	2015	2016	2017	2018
		RMB'000		
Capital expenditure contracted for but not provided in the consolidated financial statements—acquisition of property, plant and equipment	11,504	3,327	17,860	11,210

Operating Lease Commitments

We have non-cancellable lease agreements with respect to certain of our property, plant and equipment. These leases are negotiated for terms of one to five years. The following table sets forth our future minimum lease payments under these non-cancelable operating leases which fall due as follows:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
		RMB'000		
Within one year	41,013	47,970	59,772	83,563
In the second to the fifth year, inclusive	104,385	232,285	270,880	267,773
Over five years	414	106,221	46,472	15,491
Total	145,812	386,476	377,124	366,827

INDEBTEDNESS AND CONTINGENCIES

As of June 30, 2018 and October 31, 2018, we had total borrowings of RMB1,793.1 million and RMB1,943.1 million (unaudited), respectively, primarily comprised of the Privatization Syndicated Loan (such loan, which was secured by equity interest, was transferred to our Group in December 2015; in 2018, we refinanced such loan with bank loans secured by pledged bank deposits). As of the same dates, we had committed and unutilized banking facilities of RMB606.7 million and RMB257.5 million (unaudited), respectively, and none of our existing indebtedness included any material covenants or covenants that could potentially limit our ability to incur new indebtedness. In addition, as we plan to repay a portion of the Privatization Syndicated Loan and related U.S. dollar-denominated loans using proceeds from the Global Offering and cash on hand, the relevant portion of the pledged bank deposits securing such loans will be released afterwards. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not breached any financial covenant or defaulted in repayment of bank borrowings or other loan facilities.

The following table sets forth the breakdown of our outstanding interest-bearing borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2015	2016	2017	2018	2018
	RMB'000				(unaudited)
Carrying amount repayable:					
Within one year	422,352	1,237,502	1,154,593	1,793,139	1,943,108
More than one year but not exceeding two years	259,744	416,220	592,744	—	—
More than two year but not exceeding five years	765,696	623,265	—	—	—
Total borrowings	1,447,792	2,276,987	1,747,337	1,793,139	1,943,108

The following table sets forth the breakdown of our secured and unsecured bank borrowings. At October 31, 2018, being the latest practicable date for determining our indebtedness, our bank borrowings amounted to RMB1,943 million, among which RMB1,461 million are secured and unguaranteed and RMB482 million are secured and guaranteed.

	As of December 31,			As of June 30,	As of October 31,
	2015	2016	2017	2018	2018
	RMB'000				(unaudited)
Unsecured	74,944	500,792	—	—	—
Secured	1,372,848	1,776,195	1,747,337	1,793,139	1,943,108
Total bank borrowings	1,447,792	2,276,987	1,747,337	1,793,139	1,943,108

The following table sets forth the breakdown of our bank borrowings by currency:

	As of December 31,			As of June 30,	As of October 31,
	2015	2016	2017	2018	2018
	RMB'000				(unaudited)
Denominated in USD	1,372,848	1,776,195	1,747,337	1,396,103	1,525,247
Denominated in RMB	74,944	500,792	—	—	—
Denominated in HK$	—	—	—	397,036	417,861
Total bank borrowings	1,447,792	2,276,987	1,747,337	1,793,139	1,943,108

Interests on bank borrowings denominated in USD are at variable interest rates based on three-month London InterBank Offered Rate ("**LIBOR**") plus 2% to 3.2%, 0.7% to 3.2%, 1% to 3.2% and 0.7% to 3.2% as of December 31, 2015, 2016, 2017 and June 30, 2018, respectively.

Interests on bank borrowings denominated in Hong Kong dollars are at variable interest rates based on three-month Hong Kong Interbank Offered Rate plus 1% as of June 30, 2018.

Interests on bank borrowings denominated in RMB are at fixed rates based on the borrowing rates announced by the PBOC. The interest rate for the bank borrowings in RMB were at 4.22% to 5.90%, 4.57% to 4.79% and 4.35% to 4.79% per annum for the years ended December 31, 2015, 2016 and 2017, respectively. The RMB denominated bank borrowings were fully repaid in 2017.

As of the Latest Practicable Date, we did not have any plan for material external debt financing.

As of October 31, 2018, other than as disclosed in this prospectus, we did not have any outstanding debt securities, charges, mortgages, or other similar indebtedness, hire purchase, financial leasing commitments, any guarantees or other material contingent liabilities. Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since October 31, 2018.

LISTING EXPENSES

Based on the mid-point of the indicative Offer Price range and assuming the Over-Allotment Option is not exercised, our total listing expenses is expected to be approximately RMB109.4 million (equivalent to approximately HK$123.6 million). We incurred approximately RMB35.6 million (equivalent to approximately HK$40.2 million) of listing expenses in 2017, among which approximately RMB30.6 million (equivalent to approximately HK$34.6 million) was recognized as listing expenses in our consolidated statements of profit or loss and other comprehensive (expense) income and approximately RMB5.0 million (equivalent to approximately HK$5.7 million) was capitalized. We expect to incur an aggregate of approximately RMB73.8 million (equivalent to approximately HK$83.4 million) of listing expenses based on the mid-point of the indicative Offer Price range and assuming the Over-Allotment Option is not exercised, and including, among others, underwriting commission and the discretionary incentive fee, if any in 2018, among which approximately RMB45.2 million (equivalent to approximately HK$51.1 million) will be recognized as listing expenses in our consolidated statements of profit or loss and other comprehensive (expense) income and approximately RMB28.6 million (equivalent to approximately HK$32.3 million) will be capitalized.

The listing expenses above are the latest practicable estimate and are provided for reference only, and actual amounts may differ. We do not expect the additional listing expenses to have a material impact on our results of operations.

KEY FINANCIAL RATIOS

The following table sets forth key financial ratios as of the dates and for the periods indicated:

	For the year ended or as of December 31,			For the six months ended or as of June 30,
	2015	2016	2017	2018
EBITDA margin from continuing operations(1)	12.6%	7.6%	12.1%	7.9%
Adjusted EBITDA margin from continuing operations(2)	13.1%	7.3%	14.2%	10.0%
Profit margin for the year/period from continuing operations(3)	6.5%	1.5%	6.8%	4.0%
Adjusted profit margin for the year/period from continuing operations(4)	9.9%	4.2%	11.1%	7.9%
Gearing ratio(5)	55.7%	88.0%	57.5%	80.9%

(1) EBITDA margin from continuing operations is calculated by dividing EBITDA from continuing operations (which is profit before tax plus finance costs and depreciation and amortization expenses) by revenue and multiplied by 100%

(2) Adjusted EBITDA margin from continuing operations is calculated by dividing adjusted EBITDA from continuing operations (EBITDA from continuing operations adjusted by adding back share-based compensation and one-off listing expenses, and excluding gain on disposal of a subsidiary) by revenue and multiplied by 100%

(3) Profit margin for the year/period from continuing operations is calculated by dividing profit for the year/period from continuing operations by revenue and multiplied by 100%

(4) Adjusted profit margin for the year/period from continuing operations is calculated by dividing adjusted profit for the year/period from continuing operations (profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation,

amortization of intangible assets resulting from acquisitions, one-off listing expenses and interest expenses for the Privatization Syndicated Loan, and excluding gain on disposal of a subsidiary) by revenue and multiplied by 100%

(5) Gearing ratio is calculated by dividing total debt by total equity and multiplied by 100%

Our EBITDA margin decreased from 12.1% in 2017 to 7.9% in the six months ended June 30, 2018, primarily due to lower profit for the year/period from continuing operations, which was mainly as a result of seasonality. Our EBITDA margin increased from 7.6% in 2016 to 12.1% in 2017, primarily due to an increase in our profit before tax. Our EBITDA margin decreased from 12.6% in 2015 to 7.6% in 2016, primarily due to a decrease in our profit before tax.

Our profit margin for the year/period from continuing operations decreased from 6.8% in 2017 to 4.0% in the six months ended June 30, 2018, primarily due to lower profit for the year/period from continuing operations, which was mainly as a result of seasonality. Our profit margin for the year from continuing operations increased from 1.5% in 2016 to 6.8% in 2017, primarily due to an increase in our profit for the year from continuing operations. Our profit margin for the year from continuing operations decreased from 6.5% for 2015 to 1.5% for 2016, primarily due to a decrease in our profit for the year from continuing operations.

Our gearing ratio increased from 57.5% as of December 31, 2017 to 80.9% as of June 30, 2018, primarily due to a 27.0% decrease in our net assets from RMB3,038.8 million as of December 31, 2017 to RMB2,217.2 million as of June 30, 2018, which was mainly in relation to a RMB693.4 million dividend declared to AsiaInfo Holdings in the second half of 2018. Our gearing ratio decreased from 88.0% as of December 31, 2016 to 57.5% as of December 31, 2017, primarily due to a 43.0% decrease in our non-current borrowings from RMB1,039.5 million as of December 31, 2016 to RMB592.7 million as of December 31, 2017. Our gearing ratio increased from 55.7% as of December 31, 2015 to 88.0% as of December 31, 2016, primarily due to a 193.0% increase in our current borrowings from RMB422.4 million as of December 31, 2015 to RMB1,237.5 million as of December 31, 2016.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties. These transactions were conducted on normal commercial terms in the ordinary course of our business, with pricing policies consistent with those transactions conducted with independent third parties. These transactions primarily included transactions with AsiaInfo Chengdu with respect to the Network Security Transitional Arrangement. It is the view of our Directors that each of the related party transactions set out in Note 44 to the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary course of business on an arm's length basis between the relevant parties and were entered into on normal commercial terms.

During the Track Record Period, we have entered into a number of related party transactions which were of non-trade nature.

Amount due to related parties—non-trade nature, amounted to RMB92.5 million, RMB70.9 million and RMB22.9 million, as of December 31, 2015, 2016 and 2017, respectively. Amount due from related parties—non-trade nature, amounted to RMB175.9 million, RMB713.9 million and RMB735.1 million as of December 31, 2015, 2016 and 2017, respectively.

Of the total amounts due from related parties, the amounts due from/to related parties were mostly unsecure, interest-free and repayable on demand as of December 31, 2015, 2016 and 2017, except for the following major related party activities:

(i) On July 10, 2015, AsiaInfo Technologies HK and a related party, AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo Technologies HK agreed to provide a revolving facility to AsiaInfo Cayman up to US$50.0 million. US$20 million (equivalent to RMB122.3 million) was drawn on July 13, 2015. The amounts due from AsiaInfo Cayman were unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was fully settled as at December 31, 2015;

(ii) On May 18, 2015, AsiaInfo HK and AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo HK agreed to provide a revolving facility up to US$58.9 million. A borrowing was drawn on May 19, 2015, amounting to US$22.2 million (equivalent to RMB144.0 million). On December 30, 2015, another agreements were entered into between AsiaInfo Technologies HK, AsiaInfo Holdings, AsiaInfo HK and AsiaInfo Cayman where AsiaInfo Cayman transferred the loan owed to AsiaInfo HK to AsiaInfo Holdings and AsiaInfo (H.K.) limited transferred the rights to receive to the AsiaInfo Technologies HK. The loan was unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount had been settled as of June 30, 2018 through a series of debt restructuring arrangements as described in Note 44(f) to the Accountant Report included in Appendix I to this prospectus;

(iii) On May 5, 2015, AsiaInfo Technologies HK and a related party, AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo Technologies HK agreed to provide a revolving facility up to US$6.0 million. A full amount of US$6 million was drawn on May 6, 2015. The loan was unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was settled by non-cash transactions as of December 31, 2015 as described in Note 46 to the Accountant Report included in Appendix I to this prospectus;

(iv) On September 1, 2015, AsiaInfo Technologies HK and a related party, AsiaInfo Holdings, entered into a borrowing agreement where AsiaInfo Technologies HK agreed to provide a revolving facility up to US$25.7 million. Two borrowings were drawn in 2016 and 2017 in an amount of US$15.7 million (equivalent to RMB108.9 million) and US$10.0 million (equivalent to RMB65.3 million), respectively. The loan was unsecured, interest free and repayable on demand. The amount had been settled as of June 30, 2018 through a series of debt restructuring arrangements;

(v) On October 31, 2015, AsiaInfo Nanjing and a related party, Nanjing AsiaInfo Information Security Technology Co., Ltd., entered into a borrowing agreement where AsiaInfo Nanjing agreed to lend RMB80.0 million to Nanjing AsiaInfo Information Security Technology Co., Ltd. for its daily operation. The loan was unsecured, with an interest rate of 4.35% per annum and repayable on demand. RMB40.0 million was repaid on December 29, 2016 and the outstanding amount was RMB40.0 million as at December 31, 2016. Subsequently the outstanding balance was fully repaid in 2017;

(vi) On August 11, 2015, AsiaInfo Holdings entered into a facility agreement with Bank of China, Macau Branch, pursuant to which AsiaInfo Holdings borrowed a term loan of US$200.0 million. On December 30, 2015, AsiaInfo Holdings entered into an amendment and novation deed with AsiaInfo Technologies HK, pursuant to which AsiaInfo Holdings transferred all of its rights and obligations under the original facility agreement in connection with the entire unpaid principal amount of the outstanding loan (US$191.4 million) and accrued interest of US$0.8 million as at December 30, 2015 to AsiaInfo Technologies HK (the "**Debt Push-down**"). The amount due from AsiaInfo Holdings was partially offset by the dividend payment in an aggregate amount of US$140.0 million (equivalent to RMB909.1 million) declared by AsiaInfo Technologies HK, and the remaining amounts were unsecured, interest bearing at 3.2% per annum plus the London Interbank Offered Rate ("**LIBOR**"), and repayable on demand. The amount was substantially settled by dividend distribution of US$140.0 million (equivalent to RMB909.1 million) in December 2015. The remaining balance had been settled as of June 30, 2018 through a series of debt restructuring arrangements;

(vii) On November 2, 2015, Beijing AsiaInfo (Xintong) Technology Co., Ltd. and AsiaInfo Chengdu entered into a related party borrowing agreement, pursuant to which AsiaInfo Chengdu borrowed RMB45.0 million from Beijing AsiaInfo (Xintong) Technology Co., Ltd. with an annual interest rate of 4.35%. As AsiaInfo Chengdu and Beijing AsiaInfo (Xintong) Technology Co., Ltd. were disposed of on October 30, 2015 and December 28, 2015, respectively, the balance became unrelated to us thereafter;

(viii) On April 28, 2016, Beijing AsiaInfo Big Data entered into a borrowing agreement with a related party, Beijing AsiaInfo (Xintong) Technology Co., Ltd., pursuant to which Beijing AsiaInfo Big Data agreed to borrow RMB19.5 million from the lender. The loan from Beijing AsiaInfo (Xintong) Technology Co., Ltd. was unsecured, interest bearing at 4.35% per annum and repayable on demand. The outstanding balance was fully repaid on September 30, 2016.

Another borrowing agreement was entered into between Beijing AsiaInfo (Xintong) Technology Co., Ltd. and Beijing AsiaInfo Big Data on May 4, 2017, pursuant to which Beijing AsiaInfo (Xintong) Technology Co., Ltd. agreed to lend RMB10.0 million to Beijing AsiaInfo Big Data at an annual rate of 4.35%. As Beijing AsiaInfo Big Data was disposed of on November 3, 2017, the outstanding balance became unrelated to us thereafter;

(ix) On June 14, 2016, AsiaInfo Technologies HK entered into a borrowing agreement with a related party, International HK, pursuant to which International HK agreed to make available a revolving facility, up to US$60.0 million. A borrowing was drawn on June 16, 2016, amounting to US$45.0 million (equivalent to RMB298.4 million). The loan from International HK was unsecured, interest bearing at a three-month LIBOR rate plus 100bps and repayable on demand. The amount was partially repaid of US$12.0 million (equivalent to RMB81.2 million) and US$25.0 million (equivalent to RMB173.4 million) on October 26, 2016 and December 30, 2016, respectively. The remaining amount due to International HK was outstanding as at December 31, 2016 and was fully repaid in March 2017;

(x) On July 31, 2016, AsiaInfo Nanjing and a related party, Beijing AsiaInfo (Xintong) Technology Co., Ltd., entered into a borrowing agreement, pursuant to which AsiaInfo Nanjing agreed to lend RMB24.0 million to the borrower. The amounts due from Beijing AsiaInfo (Xintong) Technology Co., Ltd., were unsecured, interest bearing at 4.35% per annum and repayable on demand. The amount had been settled as of June 30, 2018 by offsetting the RMB693.4 million dividend we declared to AsiaInfo Holdings in May 2018 through a series of debt restructuring arrangements; and

(xi) On April 5, 2017 and May 31, 2017, AsiaInfo China and Beijing AsiaInfo Dataware Technology Co., Ltd., a related party, entered into two separated related party borrowing agreements, pursuant to which Beijing AsiaInfo Dataware Technology Co., Ltd. borrowed RMB6.5 million and RMB6.4 million from AsiaInfo China, respectively, both of which carried an annual interest rate at 4.35%. The loans were fully repaid on December 6, 2017.

Interests were accrued and expenses were charged to us until October 2017 upon the sale of Beijing AsiaInfo Big Data to Guangzhou AsiaInfo Cloud Bigdata Co., Ltd. as a part of the discontinued operations.

Amount due from related parties—non-trade nature amounted to RMB0.3 million as of June 30, 2018. All of such amount had been settled as of September 30, 2018. Amount due to related parties—non-trade nature amounted to RMB12.2 million as of June 30, 2018. All of such amount had been repaid prior to September 30, 2018.

We have not had any borrowings with related parties since September 30, 2018.

Our Directors are also of the view that our related parties transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks, including credit risk, liquidity risk and foreign currency risk. Set forth below is a description of our exposure to these risks and our financial risk management policies and practices to manage these risks.

Credit Risk

Our maximum exposure to credit risk which causes a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in our consolidated statements of financial position. Our credit risk is primarily attributable to its trade and notes receivables, other receivables, other non-current assets, amount due from related parties and contract assets. An allowance for doubtful debts for trade and notes receivables, other receivables, other non-current assets and amount due from related parties is made when there is an identified loss event which, based on previous experience and management's assessment of the current economic environment and the financial condition of counterparties, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of our treasury operations, our management has established internal procedures to monitor our bank balances and cash, investments to be placed and entered into with financial institution of good reputation. These internal procedures help to minimize our credit risk exposure.

The credit risk on bank balances and pledged bank deposits is limited because the counterparties are banks with high credit rating.

We have concentration of credit risk on amounts due from related parties. Amounts due from related parties amounted to RMB237.9 million, RMB872.9 million, RMB889.4 million and RMB28.3

million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. In the opinion of our Directors, credit risk is not significant as the counterparties are controlled by the controlling shareholders. The majority of the balance with related parties had been settled through cash and/or a series of debt restructuring arrangements in the six months ended June 30, 2018.

Due to the nature of our business, we have significant concentration of credit risk on a number of customers. During the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, the aggregate amount of our revenue amount to our top three telecom operators was RMB4,622.3 million, RMB4,644.6 million, RMB4,755.6 million and RMB2,124.3 million, representing 97.0%, 95.6%, 96.1% and 97.0% of our total revenue for the years/period indicated, respectively. The aggregated balance of our trade and note receivables from the top three customers was RMB691.7 million, RMB705.9 million, RMB816.2 million and RMB770.4 million, representing 87.8%, 91.0%, 91.9% and 93.3% of our total trade and note receivables as of December 31, 2015, 2016, 2017 and June 30, 2018, respectively. In addition, our concentration of credit risk by geographical locations is solely in the PRC. In the opinion of our Directors, those customers are mainly large telecommunication companies owned by the PRC government with good financial backgrounds.

Liquidity Risk

We are exposed to liquidity risk if we are unable to raise sufficient funds to meet the financial obligations when they fall due. We recorded net current liabilities of RMB848.7 million as of June 30, 2018. Ultimate responsibility for liquidity risk management rests with our Directors, who have established an appropriate liquidity risk management framework for the management of our short-, medium- and long-term funding and liquidity management requirements. We may seek to obtain financing through equity and debt issuances to finance our financials liabilities and operations. We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Our Directors are of the opinion that taken into account of the above plans and measures, we will have sufficient working capital to meet our financial liabilities and obligations as and when they fall due and to sustain our operations for the next twelve months from the end of the Track Record Period. Our consolidated financial statements have been prepared on the going concern basis.

Foreign Currency Risk

During the Track Record Period, we had bank balances and bank borrowings which were denominated in foreign currencies, mainly the U.S. dollars, exposing us to currency risk. We do not use, and have no plan to use in the foreseeable future, any derivative contracts to hedge against our exposure to currency risk. Our management manages our currency risk by monitoring the movement of the foreign currency exchange rates and considering hedging significant foreign currency exposure should such need arise.

Foreign currency sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to foreign currency rates and includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external bank borrowings from the PRC banks' oversea branches. A 5% increase or decrease is used when reporting foreign currency rate risk internally to key management personnel and represents our management's assessment of the reasonably possible change in foreign currency rates.

If RMB has been appreciated/depreciated 5% against the foreign currency and all other variables were held constant, our post-tax loss in 2015 and 2016 would increase/decrease by RMB45.2 million and RMB78.2 million, respectively. If RMB has been appreciated/depreciated 5% against the foreign currency and all other variables were held constant, our post-tax profit in 2017 and the six months ended June 30, 2018 would decrease/increase by RMB63.1 million and RMB72.5 million, respectively. This is mainly attributable to our exposure to foreign currency rates of USD and Hong Kong dollar, as where applicable, on our bank borrowings and the foreign currency bank balances as of December 31, 2015, 2016 and 2017 and June 30, 2018.

Interest Rate Risk

We are exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, pledged bank deposits and bank balances. See Note 40 to the Accountant's Report included in Appendix I to this prospectus. We keep our bank borrowings, pledged bank deposits and bank balances at floating rate of interests so as to minimize the fair value interest rate risk. Our cash flow interest rate risk is mainly concentrated on the fluctuation of the Benchmark Lending Rate of the London Interbank Offered Rate arising from our U.S. dollars denominated borrowings. We are also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings.

We currently do not have interest rate hedging policy to mitigate interest rate risk. However, we monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

DIVIDEND POLICY

In 2015, AsiaInfo Technologies HK declared a dividend of approximately RMB2.2 billion to its immediate holding company, AsiaInfo Holdings (the "**2015 Dividend**"). The 2015 Dividend was settled during the Track Record Period by (i) transferring our investment in Bonson BVI to AsiaInfo Holdings, (ii) offsetting a portion of the amounts due from AsiaInfo Holdings from its transfer of the Privatization Syndicated Loan to us, (iii) making a cash dividend payment of RMB0.4 billion to AsiaInfo Holdings in 2016 and (iv) a series of debt restructuring arrangements we carried out in 2018. On May 21, 2018, we declared a dividend of RMB693.4 million to AsiaInfo Holdings (the "**2018 Dividend**"). RMB688.2 million of the 2018 Dividend had been settled as of June 30, 2018 through a series of debt restructuring arrangements that we carried out in 2018. The remaining balance was fully paid in July 2018. We did not declare or pay any other dividend during the Track Record Period.

We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be decided by the Board at its discretion.

Whether we would declare or pay any dividends in the future and the amount of such dividends will depend on a number of factors, including our results of operations, cash flows, financial condition, amount of cash dividends paid to our Company by our subsidiaries, requirements under the applicable accounting standards, future development needs and other factors that the Directors may consider relevant. We will adopt a non-binding general dividend policy with a dividend payout ratio of no less than 40% of our annual distributable net profits in each fiscal year, commencing from the fiscal year ending December 31, 2019 and thereafter, provided that the aforesaid factors are properly taken into consideration. In addition, our dividend policy will also be subject to our Articles, the BVI Business Companies Act and any other applicable laws and regulations.

DISTRIBUTABLE RESERVES

As of June 30, 2018, our reserves available for distribution to our equity holders, or our retained profits, amounted to RMB398.0 million.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets is based on our consolidated net tangible assets as of June 30, 2018 contained in the consolidated financial statements in Appendix I to this prospectus and adjusted as described below:

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2018(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2018	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at June 30, 2018(5)	
	(RMB'000)	(RMB'000)	(RMB'000)	RMB(3)	HK$(4)
Based on Offer Price of HK$13.50 per Share	241,998	962,298	1,204,296	1.70	1.92
Based on Offer Price of HK$10.50 per Share	241,998	741,657	983,655	1.39	1.57
Based on Offer Price of HK$9.45 per Share, after a Downward Offer Price Adjustment of 10%	241,998	664,432	906,430	1.28	1.45

(1) The unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2018 is based on the consolidated net assets of the Group attributable to owners of the Company amounted to RMB2,217,162,000 less goodwill and intangible assets amount to RMB1,932,246,000 and RMB42,918,000, respectively, extracted from the Unaudited Consolidated Financial Statements of the Group set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on 85,652,000 new Shares to be issued at an indicative Offer Price of HK$10.50 and HK$13.50 per new Share, being the lower limit and higher limit of the indicative range of the Offer Price, and based on the Offer Price of HK$9.45 per Share, after making a downward Offer Price Adjustment of 10%, respectively, after deduction of the estimated listing expenses (including underwriting fees and other related expenses) expected to be incurred by the Group subsequent to June 30, 2018 and does not take into account of any Shares which may be issued upon exercise of options that may be granted under the Pre-IPO Share Option Scheme as referred to in the paragraph headed "Pre-IPO Share Option Scheme and Pre-IPO RSA Scheme" under

the section headed "Share Capital" to the prospectus or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed "General mandate to issue shares" or "General mandate to repurchase shares" under the section headed "Share Capital" to the prospectus, as the case may be.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2018 per Share is calculated based on 710,000,176 Shares, after taking into account the Share Subdivision and does not take into account of any Shares which may be issued upon exercise of options that may be granted under the Pre-IPO Share Option Scheme as referred to in the paragraph headed "Pre-IPO Share Option Scheme and Pre-IPO RSA Scheme" under the section headed "Share Capital" to the prospectus or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed "General mandate to issue shares" or "General mandate to repurchase shares" under the section headed "Share Capital" to the prospectus, as the case may be.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of RMB0.8853 to HK$1.00.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2018 to reflect any operating result or other transactions of the Group entered into subsequent to June 30, 2018. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as shown on the table above have not been adjusted to illustrate the effect of the exercise of share options and vesting of RSAs under the Pre-IPO Share Option Scheme and Pre-IPO RSA Scheme as detailed below.

Subsequent to June 30, 2018, on July 11, 2018, a total of 5,875 Shares (being 47,000 after taking into account of share subdivision), were issued to certain grantees of the share options as a result of the exercise of certain share options granted under the Pre-IPO Share Option Scheme. On the same day, a total of 466,126 Shares, (being 3,729,008 after taking into account of share subdivision), were issued to certain grantees of the RSAs as a result of the vesting of certain RSAs granted under the Pre-IPO RSA Scheme. Had the exercise of share options and vesting of RSA under the Pre-IPO Share Option Scheme and Pre-IPO RSA Scheme been completed on June 30, 2018, the unaudited pro forma adjusted consolidated net tangible assets per Share would have decreased to HK$1.43 (equivalent to RMB1.27), HK$1.56 (equivalent to RMB1.38) and HK$1.91 (equivalent to RMB1.69) based on the Offer Price of HK$9.45, after making a Downward Offer Price Adjustment of 10%, HK$10.50 per Share and HK$13.50 per Share, respectively, which are calculated based on 713,776,184 Shares. This number of shares does not take into account of any Shares which may be issued upon exercise of options that may be further granted under the Pre-IPO Share Option Scheme as referred to in the paragraph headed "Pre-IPO Share Option Scheme and Pre-IPO RSA Scheme" under the section headed "Share Capital" to the prospectus or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed "General mandate to issue shares" or "General mandate to repurchase shares" under the section headed "Share Capital" to the prospectus, as the case may be.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or prospects since June 30, 2018 (the date of the latest financial statements of the Company) and there is no event since June 30, 2018 which would materially affect the information shown in the accountants' reports set out in Appendix I to this prospectus.