AsiaInfo Technologies Limited
亞信科技控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1675)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of AsiaInfo Technologies Limited (the "**Company**" or "**AsiaInfo Technologies**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**").

INTERIM RESULTS HIGHLIGHTS

Unless otherwise specified, the profit or loss data mentioned in this announcement are all generated from continuing operations of the Group.

- Revenue of the software business amounted to approximately RMB2,476.9 million, representing a year-on-year increase of 13.7%, where our growth rate continued to reach new heights.
- Gross profit amounted to approximately RMB868.5 million, representing a year-on-year increase of 31.2%, and our gross margin amounted to 35.0%, representing a year-on-year increase of 4.8 percentage points, where our profitability continued to improve.
- Adjusted net profit[1] amounted to approximately RMB254.7 million, representing a year-on-year increase of 26.9%, and adjusted net profit margin[1] was approximately 10.3%, representing a year-on-year increase of 1.1 percentage points.
- The Company had changed the employee supplemental insurance benefits from being an annual single premium to monthly payments, which resulted in the timing difference that caused a significant change in the cash flows from operating activities. The net cash outflow from operating activities amounted to approximately RMB358.2 million, representing a year-on-year increase of 89.0%. After eliminating the said timing factor, the net cash outflow from operating activities was broadly stable year-on-year.

Note 1: To facilitate comparisons of the overall operating performance of the Company in different periods, certain non-recurring, non-cash or non-operating items, which were not indicative of our operating performance, were excluded. Adjusted net profit and adjusted net profit margin from continuing operations are not measures required by, or presented in accordance with, HKFRS (as defined below) and are unaudited figures. The use of these measures has limitations as analytical tools, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. Please refer to "MANAGEMENT DISCUSSION AND ANALYSIS – Non-HKFRS Measurement Indicators" for more details.

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the first half of 2019, the Ministry of Industry and Information Technology of China issued 5G commercial licenses, which marks that China has formally stepped into the first year of commercial 5G, and that the technologies and business innovations for 5G have also entered into an important stage. As a close partner with telecom operators and a digital transformation enabler of large enterprises, AsiaInfo Technologies actively embraces the scientific and technological revolution and industrial transformation brought by the 5G era and seeks for new opportunities of development.

During the Reporting Period, the Company had adhered to the strategy of "Three New, Four Abilities" (三新四能) as its guideline, committed to leveraging its abilities in products, services, operation and integration to source new customers, create new businesses and explore new models, and adopted the business strategy of "One consolidation, Three developments" (一鞏固，三發展) as its growth driver, in order to continuously reinforce its leading position in the telecom software and service market, make a breakthrough in 5G intelligent network business, achieve scale development in data-driven operation business, realize focused development in software and service for large enterprise customers, accelerate the process of business explanation, and continuously and stably improve its profitability.

On behalf of the Board, I hereby present the interim results of the Company for the six months ended 30 June 2019 to the shareholders of the Company (the "**Shareholders**").

OVERALL RESULTS

During the first half of 2019, the Company's results of operation maintained a healthy growth and its revenue from software business also maintained a double-digit growth, increased by 13.7% as compared with the corresponding period of last year to approximately RMB2,476.9 million, of which, revenue from data-driven operation services sustained a rapid growth by being more than doubled as compared with the corresponding period of last year. The adjusted net profit amounted to approximately RMB254.7 million, representing an increase of 26.9% as compared with the corresponding period of last year, and the adjusted net profit margin was 10.3%, representing an increase of 1.1 percentage points as compared with the corresponding period of last year, showing our continuous improvement in profitability. The use of adjusted net profit from continuing operations is to easily compare the operating performance of the Company between periods. In view of this, we have eliminated the impacts of certain non-recurring, non-cash or non-operating items. Such impacts include share-based compensation expenses, amortization of intangible assets arising from acquisition, interest expenses from the privatization syndicated loan, exchange gain and loss, and the listing expenses. The adjusted net profit and adjusted net profit margin referred to in this announcement were adjusted pursuant to the principles as set out above.

The Board, after taking into full consideration of various factors including the profitability, cash flow level and future development capital needs of the Company, decided not to declare interim dividend for the Reporting Period and proposed to maintain the guideline of setting the dividend payout ratio of not less than 40% for the year 2019.

BUSINESS REVIEW

Solid leading position in the operators' market and helping the operators' transformation and upgrade towards 5G

During the first half of the year, the Company continued to expand its input on business support, 5G intelligent network, scenario charging and billing, big data and artificial intelligence ("**AI**"), contributing to operators' steadily growing market revenue, and further strengthened our leading position. We deeply participated in the centralized reform of telecom operators, undertook more and more centralized construction projects, and strived to keep core competitiveness in the business support systems ("**BSS**") domain. We supported the operators' specialized companies in operation by offering them a variety of software products and services and helping them develop new business. In this regard, the "Phoenix Tree: Centralized Big Data PaaS platform" (梧桐集中化大數據PaaS平台), jointly developed by the Company and China Mobile, assisted China Mobile in obtaining the honor of "Outstanding Use of TMF Assets Reward" (最佳TMF資產使用獎), and participated in 3 catalyst projects of the 2019 TeleManagement forum. In addition, we also deployed the business model of "platform + business application + operation" to support operators with the abilities in operating the Internet of Things platforms, continuously expanding the market of telecom operators. As of 30 June 2019, the Company provided services to 225 telecom operator customers, representing an increase of 6.1% as compared with the corresponding period of last year, and achieved a customer retention rate of over 99%. In the first half of the year, the revenue from operators amounted to approximately RMB2,408.4 million, representing an increase of 13.9% as compared with the corresponding period of last year.

Actively expanding large enterprise customer market and enabling different sectors for digital transformation

During the first half of the year, the Company actively enhanced its market shares in the non-telecom large enterprise customer market, continuously focused on the key industries such as postal, cable TV, banking, insurance, power grid and automobile, and assisted enterprises in building abilities in middle-end data platform to push forward the process of digital transformation. During the Reporting Period, the Company launched a customer relation management ("**CRM**") system for China Post and continuously obtained big data and other project orders from China Post's provincial company. It also successfully launched a customer center hub project and helped achieve stage milestones in its CRM system for insurance companies. We assisted banks in building middle-end data platforms, and had obtained DevOps platform building orders from several commercial banks. Moreover, the Company strengthened the strategic cooperation with a grid corporation, assisting it in building middle-end data platforms. The AISWare DataOS big data asset management platform of the Company was awarded the "Best Big Data Product (最佳大數據產品)" by the China Academy of Information and Communications Technology. As of 30 June 2019, the Company provided services to 43 non-telecom large enterprise customers, representing an increase of 34.4% as compared with the corresponding period of last year, and achieved a customer retention rate of over 99%. In the first half of the year, the revenue from large enterprise customers amounted to approximately RMB58.3 million, representing an increase of 20.9% as compared with the corresponding period of last year.

Rapid growth in the scale of data-driven operation brings sustainable doubled growth in revenue

During the first half of the year, the Company had actively explored the innovative application of the business models of data-driven operation in different industries, and built an ecosphere of data-driven operation with operators and cross-sector customers, which helped to enrich data sources in different dimensions, dig up data value, contribute to the cooperation of various parties and achieve a win-win situation. During the Reporting Period, we explored not only customers from different sectors, but also service models such as the "platform + operation" model that had provided operators and several large enterprises with WeChat official account matrix operation service, bringing a significant increase in the number of customers of the platform. We provided specialized companies with data-driven operation value-added services, helping to develop new business. By joining hands with customers from industries such as "operator + insurance", "operator + IPTV (Internet Protocol Television)", we conducted accurate big data marketing. We obtained new energy digitalized project from the grid corporation. Furthermore, we offered data-driven operation service to automobile enterprises such as Changan Automobile and BYD Company Limited, helping them attract steadily growing users. During the Reporting Period, data-driven operating services achieved a revenue of approximately RMB55.5 million, and both the revenue and new orders were more than doubled as compared with the same period last year, representing our continuous scale expansion.

Developing OSS domain intelligent network products and securing our first order

With the virtualization of telecom operator network in the 5G era, works in traditional operations support systems ("**OSS**") domain such as network management, network maintenance and network optimization will be gradually planned and performed by software. In the future, the scenarios and data in the BSS domain and OSS domain will definitely be integrated. While cultivating the traditional BSS market, AsiaInfo Technologies is also actively seeking new opportunities for development. By combining its technological advantages in the coordinated field of AI in communications and BSS/OSS, the Company has launched 5G intelligent network products, including network mapping software, network optimization software, network customer experience (CEM) software and network functions virtualization (NFV) network management and planning software. In this way, we thoroughly connect the BSS domain with the OSS domain to assist telecom operators in improving the capabilities and values of their networks and optimizing service quality with focus on customer experience and network quality. We continue to collaborate with the research organizations or provincial companies under the three major operators to carry out pilot cooperation. So far, we have conducted 4/5G commercialization collaboration with operators in 9 pilot areas and secured our first order in the 5G intelligent network project.

Intensifying efforts in research and development and launching new products of the 5G series

With the advent of the 5G era, the Company continues to intensify research and development efforts, speed up technology and product innovation and build the leading 5G network and business supporting capabilities, laying a solid foundation for operators and other industries to upgrade and transform towards the 5G era. During the first half of the year, based on the technology philosophy of "full domain visualization, full domain intellectualization, full domain perceptual", the Company had developed leading 5G commercial software and application solutions, launched key products of the 5G series, including 5G full domain AI product (AISWare AI^2), 5G scenario charging and billing product (AISWare 5G Billing) and 5G PaaS platform product (AISWare AsiaInfo Infrastructure Foundations (AIF), 5G intelligent network product (AISWare Network Intelligence), 5G big data product (AISWare 5G BigData), and Open-source database product (AISWare AntDB). The two communication standard proposals submitted by the Company to the European Telecommunications Standards Institute (ETSI) had been reviewed and accepted by the international standardization organization. In addition, the Company has officially become a member of the Global System for Mobile Communications Alliance (GSMA), and will build a mobile ecosystem with joint efforts from global telecom operators and our partners in the industry.

LOOKING FORWARD

The 5G era is a new era full of new opportunities. After entering into this new era, AsiaInfo Technologies will continuously adhere to the business strategy of "One consolidation, Three developments", build the preemptive competitive edge based on its "full domain" technology philosophy, fully support telecom operators in 5G construction as well as facilitate the digital transformation of large enterprises with its accumulated technologies and experiences, focusing on and contributing to the construction of "Digital China".

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	**Six months ended 30 June** **2019** ***RMB'000*** **(unaudited)**	2018 *RMB'000* (audited)
Continuing operations			
Revenue	*4*	**2,479,331**	2,189,715
Cost of sales		**(1,610,848)**	(1,527,844)
Gross profit		**868,483**	661,871
Other income	*5*	**50,241**	41,516
(Impairment losses under expected credit loss model, net of reversal)/reversal of impairment losses under expected credit loss model, net of impairment		**(26,594)**	3,573
Other gains and losses		**12,629**	(28,568)
Selling and marketing expenses		**(218,091)**	(185,161)
Administrative expenses		**(149,831)**	(151,972)
Research and development expenses		**(381,692)**	(181,114)
Share of results of associates		**(1,637)**	120
Finance costs		**(29,990)**	(33,855)
Listing expenses		**–**	(20,862)
Profit before tax		**123,518**	105,548
Income tax expenses	*6*	**(52,786)**	(18,711)
Profit for the period from continuing operations		**70,732**	86,837
Discontinued operations			
Loss for the period from discontinued operations		**–**	(1,279)
Profit for the period	*7*	**70,732**	85,558
Profit (loss) for the period attributable to:			
Owners of the Company		**70,732**	86,737
Non-controlling interests		**–**	(1,179)
		70,732	85,558

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – CONTINUED
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	**Six months ended 30 June**	
		2019	2018
		RMB'000	*RMB'000*
		(unaudited)	(audited)
Profit (loss) for the period attributable to the owners of the Company from:			
Continuing operations		**70,732**	88,016
Discontinued operations		**–**	(1,279)
		70,732	86,737
Loss for the period attributable to the non-controlling interests from:			
Continuing operations		**–**	(1,179)
Discontinued operations		**–**	–
		–	(1,179)
Earnings per share			
– Basic (RMB)	*8*	**0.10**	0.14
– Diluted (RMB)	*8*	**0.10**	N/A
Profit for the period		**70,732**	85,558
Other comprehensive expense for the period:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**–**	(8,680)
Total comprehensive income for the period		**70,732**	76,878
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**70,732**	78,057
Non-controlling interests		**–**	(1,179)
		70,732	76,878

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	NOTES	**30/06/2019** *RMB'000* **(unaudited)**	31/12/2018 *RMB'000* (audited)
Non-current Assets			
Property, plant and equipment		**293,074**	300,869
Right-of-use assets		**154,680**	–
Prepaid lease payments		**–**	83,470
Intangible assets		**16,018**	24,021
Goodwill		**1,932,246**	1,932,246
Investments in associates		**53,380**	55,016
Deferred tax assets		**133,297**	163,292
Pledged bank deposits		**33,897**	635,736
Other non-current assets		**36,900**	35,025
		2,653,492	3,229,675
Current Assets			
Inventories		**1,992**	–
Trade and note receivables	*10*	**738,738**	764,909
Prepayments, deposits and other receivables		**107,663**	133,685
Prepaid lease payments		**–**	2,019
Financial assets at fair value through profit or loss		**–**	210,000
Contract assets		**1,563,235**	1,335,219
Amounts due from fellow subsidiaries		**20,665**	18,934
Pledged bank deposits		**187,973**	481,755
Term deposit		**150,000**	–
Bank balances and cash		**1,091,428**	1,821,182
		3,861,694	4,767,703

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED
AT 30 JUNE 2019

	NOTES	**30/06/2019** **RMB'000** **(unaudited)**	31/12/2018 *RMB'000* (audited)
Current Liabilities			
Trade and note payables	*11*	**191,208**	356,316
Contract liabilities		**269,527**	300,918
Other payables, deposits received and accrued expenses		**1,535,137**	1,788,004
Amounts due to fellow subsidiaries		**32,615**	47,328
Income tax payable		**191,910**	226,268
Bank borrowings		**585,724**	1,915,484
Lease liabilities		**39,853**	–
		2,845,974	4,634,318
Net Current Assets		**1,015,720**	133,385
Total Assets less Current Liabilities		**3,669,212**	3,363,060
Non-current Liabilities			
Deferred tax liabilities		**129,732**	127,541
Lease liabilities		**30,157**	–
		159,889	127,541
Net assets		**3,509,323**	3,235,519
Capital and Reserves			
Share capital		**–**	–
Reserves		**3,509,323**	3,235,519
Total Equity		**3,509,323**	3,235,519

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the Company									
	Share capital	Share premium	Merger reserve	Translation reserve	Statutory surplus reserve	Other reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018 (audited)	–	897,214	285,200	(15,129)	174,425	1,390,128	503,681	3,235,519	–	3,235,519
Effect arising from initial application of HKFRS 16	–	–	–	–	–	–	111	111	–	111
Adjusted balance at 1 January 2019	–	897,214	285,200	(15,129)	174,425	1,390,128	503,792	3,235,630	–	3,235,630
Profit and total comprehensive income for the period	–	–	–	–	–	–	70,732	70,732	–	70,732
Recognition of equity-settled share-based payments	–	–	–	–	–	175,608	–	175,608	–	175,608
Lapse of share options and restricted stock units	–	–	–	–	–	(3,415)	3,415	–	–	–
Issue of new shares upon exercise of the over-allotment option	–	27,162	–	–	–	–	–	27,162	–	27,162
Share issuance costs	–	(681)	–	–	–	–	–	(681)	–	(681)
Vesting of restricted stock units	–	58,336	–	–	–	(58,336)	–	–	–	–
Exercise of share options	–	1,822	–	–	–	(950)	–	872	–	872
At 30 June 2019 (unaudited)	–	983,853	285,200	(15,129)	174,425	1,503,035	577,939	3,509,323	–	3,509,323

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	Translation reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Other reserve *RMB'000*	Retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 31 December 2017 (audited)	8	104,146	285,200	(5,762)	173,845	1,453,987	1,007,411	3,018,835	19,941	3,038,776
Effect arising from initial application of HKFRS 9	–	–	–	–	–	–	(19,576)	(19,576)	–	(19,576)
Adjusted balance at 1 January 2018	8	104,146	285,200	(5,762)	173,845	1,453,987	987,835	2,999,259	19,941	3,019,200
Profit (loss) for the period	–	–	–	–	–	–	86,737	86,737	(1,179)	85,558
Other comprehensive expense for the period, net of tax	–	–	–	(8,680)	–	–	–	(8,680)	–	(8,680)
Total comprehensive (expense) income for the period	–	–	–	(8,680)	–	–	86,737	78,057	(1,179)	76,878
Recognition of equity-settled share-based payments	–	–	–	–	–	24,531	–	24,531	–	24,531
Acquisition of additional equity interests in a subsidiary	–	–	–	–	–	(191,238)	–	(191,238)	(18,762)	(210,000)
Cancellation of shares of the Company upon group reorganization	(8)	–	–	–	–	8	–	–	–	–
Dividend distribution	–	–	–	–	–	–	(693,447)	(693,447)	–	(693,447)
Lapse of share options and restricted stock units	–	–	–	–	–	(16,858)	16,858	–	–	–
At 30 June 2018 (audited)	–	104,146	285,200	(14,442)	173,845	1,270,430	397,983	2,217,162	–	2,217,162

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
NET CASH USED IN OPERATING ACTIVITIES	**(358,242)**	(189,577)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(10,096)**	(10,616)
Purchases of intangible assets	**(1,296)**	(2,258)
Payments for right-of-use assets	**(695)**	–
Purchases of financial assets at fair value through profit or loss	**(84,000)**	–
Proceeds on disposal of property, plant and equipment	**211**	–
Proceeds on disposal of an unlisted equity investment	**–**	3,665
Proceeds on disposal of financial assets at fair value through profit or loss	**298,774**	–
Repayment from related parties	**–**	9,984
Placement of pledged bank deposits	**(286,796)**	(693,693)
Withdrawal of pledged bank deposits	**1,182,417**	264,931
Placement of term deposit	**(150,000)**	–
Interest received	**29,922**	4,512
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**978,441**	(423,475)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(1,310,122)**	(1,168,341)
New bank borrowings raised	**–**	1,183,859
Repayment of leases liabilities	**(17,251)**	–
Proceeds from issue of shares	**27,162**	–
Interest paid	**(31,591)**	(19,997)
Repayment to related parties	**–**	(15,905)
Acquisition of additional interests in a subsidiary	**–**	(160,000)
Payment of issue costs	**(3,010)**	(15,094)
Proceeds from issue of ordinary shares under share option schemes	**144**	–
NET CASH USED IN FINANCING ACTIVITIES	**(1,334,668)**	(195,478)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(714,469)**	(808,530)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,821,182**	1,450,588
Effect of exchange rate changes	**(15,285)**	(8,680)
CASH AND CASH EQUIVALENTS AT 30 JUNE REPRESENTED BY BANK BALANCES AND CASH	**1,091,428**	633,378

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. GENERAL INFORMATION

AsiaInfo Technologies is incorporated in the British Virgin Islands ("**BVI**") as a company with limited liability. The address of the registered office of the Company is Craigmuir Chambers, Road Town, Tortola,VG1110, BVI.

The Company is an investment holding company. The principal activities of the Group are provision of software products and related services.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 19 December 2018.

The condensed consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

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

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

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

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

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

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

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

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

Definition of a lease

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

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

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

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

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

As a lessee

Short-term leases and leases of low-value assets

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

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

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

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

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

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

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

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

As a lessee – continued

Lease liabilities

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

The lease payments include:

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

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

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

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

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

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

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

As a lessee – continued

Lease modifications

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

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

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

Taxation

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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

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

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

As a lessee

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

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

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

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

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

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

As at 1 January 2019, the Group recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16: C8(b)(i) transition. The Group recognized lease liabilities of RMB64,393,000 and right-of-use assets of RMB150,005,000 at 1 January 2019.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.6%.

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

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

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

As a lessee – continued

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**386,086**
Less: Lease contracts of which the commencement dates will be effective after 1 January 2019	**(281,677)**
	104,409
Lease liabilities discounted at relevant incremental borrowing rates	**91,301**
Less: Recognition exemption – short-term leases	**(26,908)**
Lease liabilities as at 1 January 2019	**64,393**
Analyzed as	
Current	**32,213**
Non-current	**32,180**
	64,393

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

	Notes	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16	*(a)*	64,516
Reclassified from prepaid lease payments	*(b)*	85,489
		150,005
By class:		
Leasehold lands		85,489
Buildings		64,516
		150,005

(a) The Company recognized a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying HKAS 17. The Company measured the right-of-use asset at its carrying amount as if the standard had been applied since the lease commencement date, but discounted using the Company's incremental borrowing rate at the date of initial application.

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

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

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

As a lessee – continued

(b) Upfront payments for leasehold lands in the People's Republic of China ("**PRC**") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB2,019,000 and RMB83,470,000, respectively were reclassified to right-of-use assets.

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

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid lease payments	83,470	(83,470)	–
Right-of-use assets	–	150,005	150,005
Deferred tax assets	163,292	(12)	163,280
Current Assets			
Prepaid lease payments	2,019	(2,019)	–
Non-current Liabilities			
Lease liabilities	–	(32,180)	(32,180)
Current Liabilities			
Lease liabilities	–	(32,213)	(32,213)
Total effect on net assets		111	
Reserves	3,235,519	111	3,235,630
Total effect on equity		111	

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

4. REVENUE AND SEGMENT INFORMATION

The Group's revenue is primarily generated from project-based software development contracts, under which the Group develops software products and provides services at fixed prices and/or variable prices. Revenue is recognized net of sales related taxes.

The Group's operating segments are determined based on information reported to the chief executive officer (CEO) of the Company, being the chief operating decision maker ("**CODM**") of the Group for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services provided. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Software business:	Representing (1) software products and related services; (2) data-driven operation services; and (3) others, including sale of third-party hardware and software, the provision of system integration services, business consulting services and corporate trainings.
Network security business:	Representing provision of network security related software products and services.

Disaggregation of revenue from continuing operations

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
At a point in time	**9,810**	29,658
Over time	**2,469,521**	2,160,057
	2,479,331	2,189,715
Types of goods and services		
Provision of services	**2,471,220**	2,164,929
Sales of goods	**8,111**	24,786
	2,479,331	2,189,715
Nature of goods and services		
Software business:		
Software products and related services	**2,366,572**	2,080,660
Data-driven operation services	**55,493**	27,119
Others	**54,834**	69,828
Network security business	**2,432**	12,108
	2,479,331	2,189,715

4. REVENUE AND SEGMENT INFORMATION – CONTINUED

Disaggregation of revenue from continuing operations – continued

Segment information

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segments:

Six months ended 30 June 2019

	Software business *RMB'000*	**Network security business** *RMB'000*	**Total** *RMB'000*
Revenue	**2,476,899**	**2,432**	**2,479,331**
Cost of sales	**(1,608,464)**	**(2,384)**	**(1,610,848)**
Gross profit	**868,435**	**48**	**868,483**
Other income	**50,241**	**–**	**50,241**
Impairment losses under expected credit loss model, net of reversal	**(26,594)**	**–**	**(26,594)**
Other gains and losses	**12,629**	**–**	**12,629**
Selling and marketing expenses	**(218,091)**	**–**	**(218,091)**
Administrative expenses	**(149,821)**	**(10)**	**(149,831)**
Research and development expenses	**(381,692)**	**–**	**(381,692)**
Share of results of associates	**(1,637)**	**–**	**(1,637)**
Finance costs	**(29,990)**	**–**	**(29,990)**
Profit before tax	**123,480**	**38**	**123,518**

Six months ended 30 June 2018

	Software business *RMB'000*	Network security business *RMB'000*	Total *RMB'000*
Revenue	2,177,607	12,108	2,189,715
Cost of sales	(1,515,977)	(11,867)	(1,527,844)
Gross profit	661,630	241	661,871
Other income	41,516	–	41,516
Reversal of impairment losses under expected credit loss model, net of impairment	3,573	–	3,573
Other gains and losses	(28,568)	–	(28,568)
Selling and marketing expenses	(185,161)	–	(185,161)
Administrative expenses	(151,901)	(71)	(151,972)
Research and development expenses	(181,114)	–	(181,114)
Share of results of associates	120	–	120
Finance costs	(33,855)	–	(33,855)
Listing expenses	(20,862)	–	(20,862)
Profit before tax	105,378	170	105,548

4. **REVENUE AND SEGMENT INFORMATION – CONTINUED**

Disaggregation of revenue from continuing operations – continued

Segment information-continued

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both periods.

No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

Geographical information

The Group's operations are in the PRC. All revenue from continuing operations of the Group are generated from and non-current assets of the Group are located in the PRC.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the signing parties of the sales or service contracts. During the six months ended 30 June 2019 and 2018, there were no sales or service contracts with a signing party located outside the PRC.

5. **OTHER INCOME**

Continuing operations

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Government grants[(i)]	**22,457**	10,112
Income from management support services[(ii)]	**5,875**	7,861
Interest income from related parties	**–**	7,770
Bank interest income	**13,722**	14,041
Interest income from financial assets at fair value through profit or loss	**4,774**	–
Interest income from term deposit	**1,544**	–
Others	**1,869**	1,732
	50,241	41,516

Notes:

(i) Government grants amounted to RMB21,864,000 (2018: RMB9,490,000) have been recognized for supporting high-tech industrial development. Government grants amounted to RMB593,000 (2018: RMB622,000) have been recognized for environment protection and employee benefits. The amounts have been recognized as other income, and there was no unfulfilled condition attached to these government grants in the period in which they were recognized.

(ii) Income from management support services represents income generated primarily from the provision of management services in the areas of legal support, human resources and administration, etc. to the Group's related parties.

6. INCOME TAX EXPENSES

Continuing operations

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax ("**EIT**")	**20,612**	20,989
Deferred tax	**32,174**	(2,278)
	52,786	18,711

Under the Law of the PRC on enterprise income tax (the "**EIT Law**") and implementation regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the six months ended 30 June 2019 (2018: 25%).

The Group's subsidiaries operating in the PRC are eligible for certain tax credits of 175% (2018: 175%) deduction rates on certain research and development expenses for the six months ended 30 June 2019.

On 9 August 2012, the Ministry of Industry and Information Technology of the PRC, the Ministry of Finance of the PRC and the State Administration of Taxation promulgated and implemented Trial Measures for the Administration over the Certification of Key Software Enterprises and Integrated Circuit Design Enterprises under State Planned Layout, pursuant to which key software enterprises under the state plan layout could go through tax reduction procedures with the competent tax authorities to enjoy preferential tax policies. During the six months ended 30 June 2019 and 2018, two of the Company's subsidiaries, including AsiaInfo Technologies (China), Inc. ("**AsiaInfo China**") and AsiaInfo Technologies (Nanjing), Inc. ("**AsiaInfo Nanjing**"), were identified as the key software enterprises with tax privileges and entitled to a preferential EIT rate of 10%, pursuant to the designation as a key software enterprise within National Programming Layout. Such tax preference was applied and entitled by performing the record filling to the tax authorities on a yearly basis. The Directors consider that AsiaInfo China and AsiaInfo Nanjing will re-apply for such tax preference provided that their business operations will continue to be qualified as key software enterprises.

Pursuant to the EIT Law effective on 1 January 2008, Hunan AsiaInfo Software Co., Ltd. ("**Hunan Software**") and Nanjing AsiaInfo Software Co., Ltd. ("**Nanjing Software**") were designated as "High and New Technology Enterprise" in 2018 for a period up to 31 December 2020 and such qualifications could be re-applied every three years. As a result, Hunan Software and Nanjing Software were entitled to a preferential income tax rate of 15% (2018: 15%) for the six months ended 30 June 2019.

6. INCOME TAX EXPENSES – CONTINUED

According to the relevant tax law in the PRC, dividend distributed to foreign investors out of the profit generated from 1 January 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Detailed Rules for the Implementation of the Regulation.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2018: 16.5%). The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements.

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profit for the period ended 30 June 2019.

Pursuant to the rules and regulations of the BVI, the Company is not subject to any income tax in the BVI.

7. PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

Profit for the period from continuing operations has been arrived at after charging the following items:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period from continuing operations has been arrived at after charging the following items:		
Staff costs, including Directors' remuneration		
Directors' remuneration	**16,236**	8,304
Employee benefit expenses		
Other staff costs (salaries, wages, allowance, bonus and others)	**1,419,034**	1,337,156
Contribution to retirement benefits scheme	**136,137**	108,562
Share-based compensation expenses	**161,946**	18,798
Total staff costs	**1,733,353**	1,472,820
Cost of inventories recognized as expenses (included in cost of sales)	**7,470**	23,872
Depreciation of property, plant and equipment	**15,545**	12,633
Depreciation of right-of-use assets	**18,888**	–
Release of prepaid lease payments	**–**	1,010
Amortization of intangible assets	**9,299**	19,679
Expense of short-term and low value lease	**19,658**	38,582

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**70,732**	86,737
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**722,654,497**	624,348,176
Effect of dilutive potential ordinary shares: share options and restricted stock units ("**RSU**")	**8,511,020**	N/A
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**731,165,517**	N/A

The calculation of basic earnings per share for the periods ended 30 June 2019 and 2018 was based on the profit for the period attributable to the owners of the Company.

The calculation of the number of shares for the purpose of basic earnings per share for the six months ended 30 June 2019 has taken into account the share subdivision into 8 shares of HK$0.0000000125 per share as if the new issuance and the share subdivision had been effective on 1 January 2018, the allotment and issuance of ordinary shares with regard to the partial exercise of the over-allotment option granted to the Company's underwriters in the Company's global offering on 15 January 2019 and the allotment and issuance of ordinary shares with regard to the Pre-IPO RSU scheme on 18 January 2019.

No diluted earnings per share for six months ended 30 June 2018 was presented as there were no potential ordinary shares in issue for the first half of 2018.

The computation of diluted earnings per share for the six months ended 30 June 2019 has taken into account the share subdivision into 8 shares of HK$0.0000000125 per share as if the new issuance and the share subdivision had been effective on 1 January 2018, did not assume the exercise of the Company's over-allotment option granted to the Company's underwriters in the Company's global offering, share options under the 2014 plan and the Pre-IPO share option scheme since the exercise prices of those share options were higher than the average market price of the shares of the Company.

9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period (2018: RMB693,447,000). The Directors have determined that no dividend will be paid in respect of the interim period.

10. TRADE AND NOTE RECEIVABLES

The Group allows an average credit period of 30 days from the dates of acceptance reports when the Group had the right to consideration becoming unconditional. The extension of credit period to the customers may be granted on a discretionary basis by considering customer type, the current creditworthiness and the customer's financial condition and payment history with the Group.

The following is an analysis of trade and note receivables by age, presented based on the dates when the Group has the right to bill, net of allowance for doubtful debts.

	30/06/2019	31/12/2018
	RMB'000	*RMB'000*
1–30 days	**402,045**	476,622
31–90 days	**166,053**	154,180
91–180 days	**94,683**	90,212
181–365 days	**63,707**	28,588
Over 365 days	**12,250**	15,307
	738,738	764,909

As at 30 June 2019, total bills received amounting to RMB29,390,000 (31 December 2018: RMB21,453,000) are held by the Group for settlement of trade receivables. The Group continues to recognize their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

11. TRADE AND NOTE PAYABLES

The following is an analysis of trade payables by age, presented based on the payment obligation used by the Group's management to monitor the Group's financial position.

	30/06/2019	31/12/2018
	RMB'000	*RMB'000*
1–90 days	**33,443**	175,362
91–180 days	**35,669**	24,848
181–365 days	**37,744**	25,603
366 –730 days	**55,552**	77,922
Over 730 days	**28,800**	52,581
	191,208	356,316

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Operating Results

In the first half of 2019, the Company continued to adhere to the strategic development direction of "Three New, Four Abilities" (三新四能), and has achieved a good momentum of development and operating results. In the first half of 2019, the revenue from continuing operations amounted to approximately RMB2,479.3 million (the corresponding period in 2018: approximately RMB2,189.7 million), representing a year-on-year increase of 13.2%, among which, our revenue from software business amounted to approximately RMB2,476.9 million (the corresponding period in 2018: approximately RMB2,177.6 million), representing a year-on-year increase of 13.7%, where our growth rate continued to reach new heights.

In the first half of 2019, our gross profit from continuing operations amounted to approximately RMB868.5 million (the corresponding period in 2018: approximately RMB661.9 million), representing a year-on-year increase of 31.2%, and our gross margin amounted to approximately 35.0% (the corresponding period in 2018: 30.2%), representing a year-on-year increase of 4.8 percentage points, where our profitability continued to improve.

In the first half of 2019, the adjusted net profit from continuing operations amounted to approximately RMB254.7 million (the corresponding period in 2018: approximately RMB200.7 million), representing a significant year-on-year increase of 26.9%, and the adjusted net profit margin was approximately 10.3% (the corresponding period in 2018: 9.2%), achieving a good profitability level.

In the first half of 2019, the Company had changed the employee supplemental insurance benefits from being an annual single premium to monthly payments, which resulted in the timing difference that caused a significant change in the cash flows from operating activities. The net cash outflow from operating activities amounted to approximately RMB358.2 million (the corresponding period in 2018: approximately RMB189.6 million), representing a year-on-year increase of 89.0%. After eliminating the said timing factor, the net cash outflow from operating activities was broadly stable year-on-year.

Non-HKFRS Measurement Indicators

We believe that the indicators such as adjusted net profit from continuing operations provide useful information for investors and others to compare operating performance across different periods and different companies by eliminating the potential impact of items which are, in the view of our management, not indicative of the business performance of the Company. Meanwhile, the management of the Company also adopts the same approach to understand and assess our operating results. Starting from 2019, the impact of reconciliation items will gradually decrease.

The adjusted net profit from continuing operations in the first half of 2019 increased significantly by 26.9% to approximately RMB254.7 million (the corresponding period in 2018: approximately RMB200.7 million). The following table reconciles our adjusted net profit from continuing operations for the periods indicated to the net profit from continuing operations in accordance with HKFRS:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Reconciliation of net profit from continuing operations and adjusted net profit		
Net profit from continuing operations	**70,732**	86,837
Add:		
Share-based compensation	**175,608**	24,531
Amortization of intangible assets due to acquisition	**7,566**	17,148
One-off listing expenses	**–**	20,862
Interest expenses for the privatization syndicated loan	**11,373**	24,069
Exchange (loss)/gain, net	**(10,613)**	27,240
Adjusted net profit from continuing operations	**254,666**	200,687

Revenue

In the first half of 2019, our revenue amounted to approximately RMB2,479.3 million (the corresponding period in 2018: approximately RMB2,189.7 million), representing a year-on-year increase of 13.2%, primarily due to the increase of revenue from the software business. Such increase was partly offset by the decrease in revenue from the divested network security business.

Among which, the revenue from software business in the first half of 2019 amounted to approximately RMB2,476.9 million (the corresponding period in 2018: approximately RMB2,177.6 million), representing a year-on-year increase of 13.7%, primarily due to the increase in revenue from the businesses of software products and related services and data-driven operation services for the operator customers.

Cost of Sales

In the first half of 2019, we incurred cost of sales of approximately RMB1,610.8 million (the corresponding period in 2018: approximately RMB1,527.8 million), representing a year-on-year increase of 5.4%, with share-based compensation expenses being excluded, the cost of sales amounted to approximately RMB1,545.6 million (the corresponding period in 2018: approximately RMB1,525.6 million), primarily due to the increase in labor cost in cost of sales.

Gross Profit and Gross Margin

In the first half of 2019, our gross profit was approximately RMB868.5 million (the corresponding period in 2018: approximately RMB661.9 million), and our gross margin was approximately 35.0% (the corresponding period in 2018: approximately 30.2%). The continuous increase in gross margin in the first half of 2019 was primarily due to the ongoing positive effect from our business middle office strategy, which continued to improve the efficiency in project execution and delivery through continuous reinforcement of digitalized project management by enhancing the common application of intermediate components and promoting product collective unification.

Selling and Marketing Expenses

In the first half of 2019, our selling and marketing expenses amounted to approximately RMB218.1 million (the corresponding period in 2018: approximately RMB185.2 million), representing a year-on-year increase of 17.8%, with share-based compensation expenses and amortization of intangible assets due to acquisition being excluded, the selling and marketing expenses amounted to approximately RMB171.5 million (the corresponding period in 2018: approximately RMB163.3 million), primarily because we had carried out more sales and marketing activities to expand the market of non-telecom market customers.

Administrative Expenses

In the first half of 2019, our administrative expense amounted to approximately RMB149.8 million (the corresponding period in 2018: approximately RMB152.0 million), representing a year-on-year decrease of 1.4%, with share-based compensation expenses being excluded, the administrative expense amounted to approximately RMB113.0 million (the corresponding period in 2018: approximately RMB135.0 million), primarily due to the decrease in bank charges.

Research and Development Expenses

In the first half of 2019, our research and development ("**R&D**") expenses amounted to approximately RMB381.7 million (the corresponding period in 2018: approximately RMB181.1 million), representing a year-on-year increase of 110.7%, with share-based compensation expenses being excluded, the R&D expenses amounted to approximately RMB347.1 million (the corresponding period in 2018: approximately RMB180.5 million), primarily because we had continually carried out more R&D activities to enhance the product standardization capabilities of general technology platforms, and focused on R&D activities in the areas of data-driven operation services and a series of 5G products that are in line with our development strategy.

Income Tax Expenses

In the first half of 2019, the income tax expenses amounted to approximately RMB52.8 million (the corresponding period in 2018: approximately RMB18.7 million), and the effective tax rate calculated based on the adjusted profit before tax was 17.2% (the corresponding period in 2018: 8.5%), primarily due to the combined effects of the increase in the profit and loss of the Company and the withholding tax on profits, which increased slightly as compared to the effective tax rate calculated based on the adjusted profit before tax of 15.3% for the year of 2018.

Net Profit

In the first half of 2019, our net profit amounted to approximately RMB70.7 million (the corresponding period in 2018: approximately RMB86.8 million), representing a year-on-year decrease of 18.5%. Such decrease was primarily due to the increase in the recognition of share-based compensation expenses for our employees in the first half of 2019.

Net Current Assets

As at 30 June 2019, our net current assets amounted to approximately RMB1,015.7 million (31 December 2018: approximately RMB133.4 million), representing a year-on-year increase of 661.5%. The change was primarily due to the repayment of certain existing bank borrowings according to the repayment schedule in the first half of 2019, which resulted in the release of the loan guarantee deposits accounted for as non-current pledged bank deposits as at 31 December 2018.

Goodwill

As at 30 June 2019, our goodwill amounted to approximately RMB1,932.2 million (31 December 2018: approximately RMB1,932.2 million), which was attributable to the business combination completed in 2010. During the Reporting Period, we had not identified any indication of impairment for goodwill and had not recorded any impairment loss for goodwill.

Indebtedness and Contingencies

As at 30 June 2019, we had total bank borrowings of approximately RMB585.7 million (31 December 2018: approximately RMB1,915.5 million), with a gearing ratio[1] of 16.7% (31 December 2018: 59.2%). None of our existing indebtedness included any material covenants or covenants that could potentially limit our ability to incur new indebtedness.

Note 1: A gearing ratio is calculated by dividing total bank borrowings by total equity and times 100%.

Cash Flow

In the first half of 2019, net cash outflow from operating activities amounted to approximately RMB358.2 million (the corresponding period in 2018: approximately RMB189.6 million), representing a year-on-year increase of 89.0%. The increase in net cash outflow from operating activities was primarily because the Company had changed the employee supplemental insurance benefits from being an annual single premium to monthly payments, which resulted in the timing difference that caused a significant change in the cash flows from operating activities. After eliminating the said timing factor, the net cash outflow from operating activities was broadly stable year-on-year.

Interim Dividend

The Board resolved not to declare any interim dividend for the period ended 30 June 2019.

USE OF NET PROCEEDS FROM LISTING

Our shares were listed on the Stock Exchange on 19 December 2018. The net proceeds raised during the period of initial public offering (after deducting the underwriting commission and the issuance expenses from listing and prior to the exercise of the over-allotment option in January 2019) approximately HK$871.1 million. Due to the issue and allotment of over-allotment shares pursuant to the partial exercise of over-allotment options on 15 January 2019, additional net proceeds of approximately HK$30.5 million were raised. As at 30 June 2019, the Group had not changed the use of proceeds as disclosed in the prospectus and the annual report of the Company for the year ended 31 December 2018. Further details of the use of net proceeds will be disclosed in the interim report of the Company for the six months ended 30 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company strives to maintain high standards of corporate governance in order to safeguard the interests of its Shareholders and enhance the corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2019, the Company had applied the principles of the CG Code on the Company's corporate governance structure and operation, and had complied with all applicable code provisions of the CG Code. The Company will continue to review and oversee the corporate governance practices to ensure its compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

EVENTS AFTER THE REPORTING PERIOD

No major subsequent events affecting the Group have occurred since the end of the Reporting Period and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company had, together with the management and external auditor of the Company, reviewed the accounting standards and practices adopted by the Company and the unaudited interim results of the Group for the six months ended 30 June 2019.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2019 INTERIM REPORT OF THE GROUP

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.asiainfo.com) and the 2019 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
AsiaInfo Technologies Limited
TIAN Suning
Chairman and Executive Director

Hong Kong, 14 August 2019

As at the date of this announcement, the Board comprises Dr. TIAN Suning, Mr. DING Jian and Mr. GAO Nianshu as executive Directors; Mr. ZHANG Yichen, Mr. XIN Yuesheng and Mr. ZHANG Liyang as non-executive Directors and Dr. GAO Jack Qunyao, Dr. ZHANG Ya-Qin and Mr. GE Ming as independent non-executive Directors.