INSPUR INTERNATIONAL LIMITED

浪 潮 國 際 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the directors of Lang Chao International Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

The board of Directors (the "Board") of Inspur International Limited (the "Company") is pleased to present the audited consolidated results (the "Audited Consolidated Results") of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 together with comparative audited figures for the last year.

Consolidated Income Statement
For the Year ended 31 December 2006

	NOTES	**2006** *HK$'000*	**2005** *HK$'000*
Revenue	6	870,619	729,561
Cost of sales		(820,704)	(697,161)
Gross profit		49,915	32,400
Other income		3,975	3,626
Administrative expenses		(16,634)	(8,879)
Interest expenses		(11,984)	(436)
Share of profits of associates		2,645	2,447
Profit before taxation		27,917	29,158
Taxation	8	(2,770)	(4,943)
Profit for the year	9	25,147	24,215
Attributable to:			
Equity holders of the parent		25,160	24,215
Minority interests		(13)	—
		25,147	24,215
Dividend	10	15,333	12,000
Earnings per share	11		
Basic		HK4.96 cents	HK5.34 cents
Diluted		HK4.94 cents	HK4.87 cents

Consolidated Balance Sheet
At 31 December 2006

	NOTE	**2006** *HK$'000*	**2005** *HK$'000*
Non-current assets			
Property, plant and equipment		1,762	603
Interests in associates		58,512	21,602
		60,274	22,205
Current assets			
Inventories		45,297	88,126
Trade receivables		13,787	2,966
Prepayments, deposits and other receivables		8,299	35
Amount due from an associate		58	—
Amounts due from fellow subsidiaries		15,523	10,200
Amount due from ultimate holding company		141,053	2
Taxation recoverable		897	—
Bank balances and cash		148,158	165,405
		373,072	266,734
Current liabilities			
Trade payables		61,264	64,294
Other payables and accrued expenses		20,825	5,349
Amounts due to fellow subsidiaries		7,099	916
Amount due to immediate holding company		39	—
Taxation payable		—	1,573
		89,227	72,132
Net current assets		283,845	194,602
Total assets less current liabilities		344,119	216,807
Non-current liabilities			
Redeemable convertible preferred shares		179,274	95,102
		164,845	121,705
Capital and reserves			
Share capital	12	5,143	4,911
Reserves		152,984	116,794
Equity attributable to equity holders of the parent		158,127	121,705
Minority interests		6,718	—
Total equity		164,845	121,705

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the parent								
	Share capital	Share premium	Special reserve	Preferred shares equity reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	4,000	30,040	92	—	—	31,459	65,591	—	65,591
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	(221)	—	(221)	—	(221)
Profit for the year	—	—	—	—	—	24,215	24,215	—	24,215
Total recognised (loss) gain for the year	—	—	—	—	(221)	24,215	23,994	—	23,994
Placing of shares	520	18,200	—	—	—	—	18,720	—	18,720
Share issue expenses	—	(146)	—	—	—	—	(146)	—	(146)
Issue of shares for the acquisition of Timeone Technology Limited ("Timeone")	391	18,768	—	—	—	—	19,159	—	19,159
Equity component of the redeemable convertible preferred shares	—	—	—	6,387	—	—	6,387	—	6,387
Dividend paid	—	—	—	—	—	(12,000)	(12,000)	—	(12,000)
At 31 December 2005	4,911	66,862	92	6,387	(221)	43,674	121,705	—	121,705
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	8,643	—	8,643	—	8,643
Profit for the year	—	—	—	—	—	25,160	25,160	(13)	25,147
Total recognised gain (loss) for the year	—	—	—	—	8,643	25,160	33,803	(13)	33,790
Minority interest in a subsidiary acquired	—	—	—	—	—	—	—	6,731	6,731
Exercise of share options	232	6,669	—	—	—	—	6,901	—	6,901
Equity component of the redeemable convertible preferred shares	—	—	—	11,501	—	—	11,501	—	11,051
Dividend paid	—	—	—	—	—	(15,333)	(15,333)	—	(15,333)
At 31 December 2006	5,143	73,531	92	17,438	8,422	53,501	158,127	6,718	164,845

Notes to the Consolidated Financial Statements

1. GENERAL

The Company is a public listed company and the shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 April 2004. The Company was incorporated in the Cayman Islands on 29 January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its parent is Inspur Electronics (HK) Limited (formerly known as Lang Chao Electronics (HK) Limited, a company incorporated in Hong Kong and its ultimate holding company is Inspur Group Limited (formerly known as Lang Chao Group Limited) ("Inspur Corporation"), a company established in the People's Republic of China ("PRC").

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are trading of computer components, manufacture and trading of computer products and development and sale of computer software.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Accounting Standards ("HKAS"), amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards and interpretations ("INTs") and amendment that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, interpretations and amendment will have no material effect on the results of the operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[8]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) - INT 8	Scope of HKFRS 2[3]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) - INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions[6]
HK(IFRIC) - INT 12	Service concession arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.
5 Effective for annual periods beginning on or after 1 November 2006.
6 Effective for annual periods beginning on or after 1 March 2007.

7 Effective for annual periods beginning on or after 1 January 2008.
8 Effective for annual periods beginning on or after 1 January 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance. The accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, return and allowances.

Sales of goods are recognised when goods are delivered and title has been passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in translation reserve. Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in interest expense in the consolidated income statement in the year in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets comprise loans and receivables and the accounting policies are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables and amounts due from an associate, fellow subsidiaries and ultimate holding company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Financial liabilities

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

Redeemable convertible preferred shares ("Preferred Shares")

Preferred Shares issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the Preferred Shares and the fair value assigned to the liability component, representing the embedded conversion option for the holder to convert the Preferred Shares into equity, is included in equity (Preferred shares equity reserve).

In subsequent periods, the liability component of the Preferred Shares is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in preferred shares equity reserve until the embedded option is exercised in which case the balance stated in preferred shares equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in preferred shares equity reserve will remain in the preferred shares equity reserve. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the Preferred Shares are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Preferred Shares using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the relevant lease terms. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

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

In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 "Share — based payments" with respect to share options granted after 7 November 2002 and vested before 1 January 2005, no amount has been recognised in the consolidated financial statements in respect of the these equity-settled shared-based payments.

Retirement benefits costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices, current market conditions and any anticipated changes in market conditions subsequent to the balance sheet date. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow moving items.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include amounts due from fellow subsidiaries and ultimate holding company, trade receivables, trade payables, other payables, redeemable convertible preferred shares and bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable, amounts due from fellow subsidiaries and ultimate holding company at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's trade receivables as at 31 December 2006 are mainly due from a few customers. The management closely monitors the subsequent settlement of the customers and does not grant long credit period to them. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group also has concentration of credit risk on trade receivables from ultimate holding company and fellow subsidiaries.

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

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to redeemable convertible preferred shares.

The Group currently does not have a interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

6. REVENUE

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group less discounts, returns and allowances. An analysis of the Group's revenue for the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of computer components	684,445	729,561
Sales of computer products	185,047	—
Software project income	1,127	—
	870,619	729,561

7. SEGMENT INFORMATION

Business segment

In prior years, the Group was principally engaged in trading of computer components. Accordingly, no business segment analysis was presented for the year ended 31 December 2005.

For management purposes, the Group is currently organised into three operating divisions, namely trading of computer components, manufacture and trading of computer products and development and sales of computer software. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses as at 31 December 2006 is presented below:

Income statement for the year ended 31 December 2006

	Trading of computer components	Manufacture and trading of computer products	Development and sales of computer software	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	684,445	185,047	1,127	870,619
Segment results	18,992	20,291	(106)	39,177
Unallocated income				3,005
Unallocated corporate expenses				(4,926)
Share of results of associates	—	—	2,645	2,645
Interest expenses				(11,984)
Profit before taxation				27,917
Taxation				(2,770)
Profit for the year				25,147

Balance sheet at 31 December 2006

	Trading of computer components HK$'000	Manufacture and trading of computer products HK$'000	Development and sales of computer software HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	61,810	162,002	1,967	225,779
Interests in associates	—	—	58,512	58,512
Unallocated corporate assets				149,055
				433,346
LIABILITIES				
Segment liabilities	22,203	55,959	88	78,250
Unallocated corporate liabilities				190,251
Consolidated total liabilities				268,501

Other information for the year ended 31 December 2006

	Trading of computer components HK$'000	Manufacture and trading of computer products HK$'000	Development and sales of computer software HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	—	1,897	326	8	2,231
Depreciation of property, plant and equipment	—	126	59	404	589
Write-down of inventories	1,621	—	—	—	1,621

Geographical segments

In prior years, the Group's operations were principally carried out in Hong Kong and the Group's assets were substantially located in Hong Kong. Accordingly, no analysis of the carrying amount of segment assets and additions to property, plant and equipment by geographical segment was presented.

The Group's operations are currently carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by location of markets for the year ended 31 December 2006, irrespective of the origin of the goods/services:

	Sales revenue by geographical market
	HK$'000
Hong Kong	684,445
The PRC	186,174
	870,619

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment as at 31 December 2006, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets	**Additions to property, plant and equipment**
	HK$'000	**HK$'000**
Hong Kong	61,810	8
The PRC	163,969	2,223
	225,779	2,231

8. TAXATION

	2006	**2005**
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for the year	2,770	4,943

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

The statutory tax rate for the PRC Enterprise Income Tax is 33%.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary, 浪潮(山東)電子信息有限公司 is exempted from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC Enterprise Income Tax has been made in the consolidated financial statements as all of the PRC subsidiaries either have no assessable profits arising in the PRC or were exempted from PRC Enterprise Income Tax during the year.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	27,917	29,158
Tax at the prevailing profits tax rate of 17.5% (2005: 17.5%)	4,886	5,103
Tax effect of share of profits of associates	(463)	(428)
Tax effect of expenses that are not deductible in determining taxable profit	2,234	922
Tax effect of income not taxable for tax purpose	(248)	(654)
Effect of tax exemptions granted to PRC subsidiary	(3,852)	—
Others	213	—
Taxation for the year	2,770	4,943

No provision for deferred taxation has been recognised in the consolidated financial statements as the amount involved is insignificant.

9. PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Auditors' remuneration	1,109	950
Less: Amount reimbursed by the associates	—	(600
	1,109	350
Cost of inventories recognised as expenses	819,083	694,779
Depreciation for property, plant and equipment	589	439
Directors' remuneration		
Fee	204	188
Other emoluments	2,666	1,866
Other staff costs		
Salaries and other benefits	4,966	1,702
Retirement benefit scheme contributions	295	18
	8,131	3,774
Interest expense on redeemable convertible preferred shares wholly repayable after five years	11,984	436
Net loss on disposal of property, plant and equipment	2	—
Operating lease rentals in respect of office premises and staff quarters	484	270
Share of tax of associates (included in share of profits of associates)	619	347
Write-down of inventories	1,621	2,382
and after crediting:		
Interest income	2,718	569
Gain on disposal of an associate	384	—
Net foreign exchange gain	286	257
Net consultancy service income (net of expenses of approximately HK$2,473,000, including a director's emolument of approximately HK$762,000 in 2005)	—	327

Operating lease rentals in respect of a director's accommodation amounting to HK$15,000 (2005: HK$60,000) for the year are included under directors' other emoluments.

10. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Final dividend for 2005, paid - HK3 cents (for 2004: HK3 cents) per share	14,733	12,000
Additional final dividend paid for 2005 shares issued under share option scheme	600	—
	15,333	12,000

The final dividend of HK1.5 cents (2005: HK3 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2006 *HK$'000*	**2005** *HK$'000*
Earnings		
Earnings for the purposes of basic earnings per share (Profit for the year attributable to equity holders of the parent)	25,160	24,215
Interest on redeemable convertible preferred shares	11,984	436
Earnings for the purposes of diluted earnings per share	37,144	24,651
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	507,451	453,519
Effect of dilutive potential ordinary shares:		
- share options	41,288	44,168
- redeemable convertible preferred shares	203,746	8,743
Weighted average number of ordinary shares for the purpose of diluted earnings per share	752,485	506,430

12. SHARE CAPITAL OF THE COMPANY

	Number of shares *'000*	*HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 2006	1,000,000	10,000
Issued:		
At 1 January 2005	400,000	4,000
Placing of shares	52,000	520
Issue of shares for the acquisition of Timeone (Note)	39,100	391
At 31 December 2005	491,100	4,911
Exercise of share options	23,200	232
At 31 December 2006	514,300	5,143

Note: On 1 June 2005, the Company issued 39,100,000 shares at a market price of HK$0.49 per share to the vendors as consideration for the acquisition of the entire issued share capital of Timeone.

All the shares which were issued during both years rank pari passu with the then existing shares in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover increased by approximately HK$141,058,000 to HK$870,619,000 during the year under review, representing 19.33% increase as compared with last corresponding period. Such increase was mainly attributable to the increase in sales computer products and software project income.

The Group recorded a gross profit of approximately HK$49,915,000 with the gross profit margin of approximately 5.73%, an increase of approximately 54.06% as compared with gross profit of last corresponding period approximately HK$32,400,000. This increase was due to the gross profit margin of computer product is greater than computer components.

The administrative expenses for the year ended 31 December 2006 increased by approximately HK$7,755,000 or 87.34% as compared to last corresponding period. This increase was due to the increasing the operating expenses of subsidiaries in PRC.

The net profit attributable to equity holders of the parent for the year ended 31 December 2006 was approximately HK$25,160,000, a 3.9% increase when compared to net profit approximately HK$24,215,000 for the year 2005. Such increase was mainly from increasing the revenue from computer products and software project income.

Capital structure

The Group intends to principally finance its operation with its internal resources and net proceeds from fund raising activities. On 12 April 2006, 9,200,000 and 10,800,000 new ordinary shares were issued upon the exercise of pre-IPO share options and share options at the price of HK$0.324 and HK$0.280 per share respectively for net proceeds of approximately HK$6,005,000 of the shares of the Company. On 1 June 2006, 3,200,000 new ordinary shares were issued upon the exercise of share options at the price of HK$0.280 per share for net proceeds of HK$896,000 of the shares of the Company.

On 21 April 2006, the Company issued 101,315,217, 6% redeemable convertible preferred shares to Microsoft Corporation ("Microsoft") at HK$0.920 per share for net proceeds of approximately HK$93,210,000.

Liquidity and financial resources

The Group generally finances its operation with cash flow generated from sales and remaining portion of the net proceeds from fund raising activities. As at 31 December 2006, shareholders' funds of the Group amounted to approximately HK$158,127,000 (31 December 2005: HK$121,705,000). Current assets amount to approximately HK$373,072,000 of which approximately HK$148,158,000 were cash and bank balances. Current liabilities of approximately HK$89,227,000 mainly comprised accounts payable, tax payable and other payables and accrued expenses. The Group's current assets are approximately 4.18 times (31

December 2005: 3.70 times) over its current liabilities. The gearing ratio of the Group, defined as a ratio between total debts and shareholder's equity is 1.63 (31 December 2005: 1.37). As at 31 December 2006, the Group had no bank borrowings (31 December 2005: Nil).

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Foreign exchange exposure

The Group does not have any material foreign exchange exposure.

Employee information

As at 31 December 2006, the Group had 273 employees (2005: 22 empolyees). The increase in staff was mainly from the PRC operations. The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the year under review amounted to approximately HK$8,131,000 (2005: approximately HK$3,774,000).

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. In addition, the Group also provides mandatory provident fund scheme, medical insurance scheme for its employees.

Charges on assets

During the year under review, no assets of the Group were pledged (the year ended 31 December 2005: Nil).

Material acquisition, disposals and significant investment

The Group had further invested US$9,000,000 to a wholly owned subsidiary Inspur (Jinan) Electronic Information Limited (formerly known as Lang Chao (Jinan) Electronic Information Limited) to acquire the registered capital of Inspur Group Shandong Genersoft Limited (formerly known as Lang Chao Group Shandong Genersoft Limited) ("Genersoft") and Shandong Inspur E-Government Software Limited (formerly known as Shandong Lang Chao E-Government Software Limited) ("Inspur E-Government"). In December 2006, Inspur (Jinan) Electronic Information Limited had merger to Inspur (Shandong) Electronics Information Company Limited (formerly known as "Lang Chao (Shandong) Electronics Information Company Limited")

The Group subscribed for approximately 30.05% of the enlarged registered capital of Genersoft at a consideration of RMB40,200,000 in cash and subscribed for approximately 53.3% of the enlarged registered capital of Inspur E-Government at a consideration of RMB8,000,000 in cash. Further details regarding the subscription are set out in the Company's circular dated 8 March 2006.

Inspur (Shandong) Electronics Information Company Limited, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Jinan Peng Zhi Technology Development Company Limited ("Jinan Peng Zhi") pursuant to which Jinan Peng Zhi agreed to acquire 49% of the equity interest in Shandong Chaoyue Digital Electronics Company Limited, at a cash consideration of RMB7,122,150. Further details regarding the disposal is set out in the Company's circular dated 8 September 2006.

Save as disclosed above, the Group has not held any significant investment for the year ended 31 December 2006 and made no material acquisitions or disposals during the current period. As 31 December 2006, the Group had no material capital commitments and no future plans for material investments or capital assets.

Contingent liabilities

As at 31 December 2006, the Group had no material contingent liabilities.

Business review and prospects

The Group will continue to place particular emphasis on keeping abreast with market developments and product trends in the information technology sector in order to further procure its existing and other information technology products. The Group will extend into the market of management software and the market of e-government business and thereby diversify its revenue sources and build up its reputation in the software industry. The Directors consider that the investment will enhance the Group's overall business performance, strengthen its revenue base and diversify its business risk by enlarging its product and service base.

The Company further issued preferred share to Microsoft. As Microsoft is one of the largest software developers in the world, the introduction of Microsoft as a substantial Shareholder will enhance future cooperation between the Group and Microsoft, resulting in common synergies and benefit for both the Group and Microsoft. The Group will also continue to look for opportunities to cooperate with new technology partners who can complement its own products and business. Relying on its sound financial position and the team spirit of the management and staff, I believe the Group's business will continue to prosper. The Group is also looking to opportunities in Greater China and will utilise the expertise and connections with its reseller network to accelerate entry to this market.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTEREST

During the year ended 31 December 2006, none of the directors, chief executive, initial management shareholders nor substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix V of the prospectus of the Company dated 20 April 2004. As at 8 April 2004, options to subscribe for an aggregate of 40,000,000 Shares at HK$0.324 per Share had been granted by the Company under to Pre-IPO Share Option Scheme.

During the year ended 31 December 2006, 9,200,000 pre-IPO share options have been exercised. Save as disclosed above, none of the options granted under the Pre-IPO Share Option Scheme have been exercised, cancelled or lapsed during the year ended 31 December 2006. As at 31 December 2006, 24,000,000 shares option are outstanding.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms" in Appendix V of the prospectus of the Company dated 20 April 2004. As at 28 December 2004, options to subscribe for an aggregate of 40,000,000 Shares at HK$0.28 per Share had been granted by the Company under to Share Option Scheme.

During the year ended 31 December 2006, 14,000,000 share options have been exercised. Save as disclosed above, none of the options granted under the Share Option Scheme have been exercised, cancelled or lapsed during the year ended 31 December 2006. As at 31 December 2006, 26,000,000 shares option are outstanding.

COMPLIANCE ADVISER'S INTEREST

The Company has been notified by Guotai Junan Capital Limited (the "Compliance Adviser") that as at 31 December 2006, neither Compliance Adviser nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 31 December 2006.

Pursuant to the agreement dated 31 August 2005 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's retained sponsor for the period from 1 September 2005 to 31 December 2006.

AUDIT COMMITTEE

The Company established an audit committee on 8 April 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive directors, Messrs. Meng Xiang Xu, Liu Ping Yuan and Wong Lit Chor, Alexis. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee.

Up to the date of approval of these financial statements, the audit committee has held four meetings and has reviewed the Company's draft annual, interim and quarterly financial reports and financial statements prior to recommending such reports and financial statements to the Board for approval.

The Group's audited results for the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

CORPORATE GOVERNANCE

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 23 April 2007 to 26 April 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26 April 2007.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 23 March 2007

As at the date of this announcement, the Board comprised Mr. Sun Pishu, Mr. Zhang Lei, Mr. Wang Miao and Mr. Leung Chi Ho as executive Directors, Mr. Xin Wei Hua, Mr. Wang Hung, Alex, Mr. Marc Evan Brown and Mr. William James Fass as non-executive Directors, and Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis as independent non-executive Directors.

This announcement will remain on the GEM website at www. hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.