THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Inspur International Limited, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

INSPUR INTERNATIONAL LIMITED

浪 潮 國 際 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

MAJOR AND CONNECTED TRANSACTION

Independent financial adviser to the Company

REXCAPITAL (Hong Kong) Limited

The notice convening an extraordinary general meeting of the Company to be held at Hong Kong International Trade & Exhibition Centre, Meeting Room 5, 7th Floor, 1 Trademart Drive, Kowloon Bay, Kowloon, at 10:30 a.m. on Monday, 17 March 2008 is set out on pages 128 to 129 herein.

A form of proxy for the extraordinary general meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the form of proxy and return the same to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar in Hong Kong, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for seven days from the date of its publication.

29 February 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") 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.

CONTENTS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

"Acquisition"	the acquisition by the Company of the entire issued share capital of Intersource from the Vendor subject to and upon the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 18 December 2007 and entered into between the Vendor and the Company in respect of the Acquisition
"associates"	has the meaning ascribed to this term under the GEM Listing Rules
"Board"	the board of Directors
"Company"	Inspur International Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Acquisition pursuant to the Acquisition Agreement
"Conditions"	the conditions precedent to the Acquisition Agreement which are set out in the paragraph headed "Conditions" in this circular
"connected person(s)"	has the meaning ascribed to this term under the GEM Listing Rules
"Consideration"	the consideration for the Acquisition
"Directors"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, to approve, among other things, the Acquisition and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Target Group immediately after the Completion
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent board committee, comprising Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis, all being the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than IP Group (including its ultimate beneficial owners and their respective associates) and the Vendor (including its ultimate beneficial owners and their respective associates)
"Inspur Communication Transaction"	the acquisition of the entire issued share capital of Shine Victory International Limited and 51% of the equity interest of Inspur Communication Information System Limited as announced by the Company in its circular dated 6 November 2007
"Intersoruce"	Intersource Technology Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is beneficially owned by the Vendor
"IP Group"	Inspur Group Limited, which is a company established in the PRC and through its wholly owned subsidiary, Inspur Electronics (HK) Limited, being the management Shareholder and controlling Shareholder for the purpose of the GEM Listing Rules interested in 44.55% of the existing issued share capital of the Company
"Jinan Qiyi"	Jinan Qiyi Information Technology Limited* (濟南啟益信息科技有限公司), a wholly owned foreign enterprise established in the PRC, the entire issued equity interest of which is beneficially owned by Intersource
"Latest Practicable Date"	27 February 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"LC Genersoft"	Inspur Group Shandong Genersoft Incorporation* (浪潮集團山東通用軟件有限公司), a domestic limited liability company established under the laws of the PRC
"PRC"	the People's Republic of China, and for the purposes for this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan

"REXCAPITAL"	REXCAPITAL (Hong Kong) Limited, a licensed corporation to carry out type 6 regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Acquisition and the transactions contemplated thereunder
"Sale Shares"	the entire issued share capital of Intersource which is beneficially owned by the Vendor immediately before Completion
"SFO"	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Intersource, Jinan Qiyi, LC Genersoft and its subsidiaries
"Vendor"	Total Charm Investments Limited (全雅投資有限公司), an investment holding company incorporated in the British Virgin Islands with limited liability and whose ultimate beneficial owner is Ms. Huang Zhijuan (黃志娟), a merchant
"HK$"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"%"	per cent.

* *The English translation of Chinese names or words in this circular is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

For illusion purpose, an exchange rate of HK$1.00 to RMB0.95 is used in this Circular.

INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

Executive Directors:
Mr. Sun Pishu *(Chairman)*
Mr. Zhang Lei
Mr. Wang Miao
Mr. Leung Chi Ho

Non-executive Directors:
Mr. Xin Wei Hua
Mr. Wang Hung, Alex
Mr. William James Fass

Independent non-executive Directors:
Mr. Meng Xiang Xu
Mr. Liu Ping Yuan
Mr. Wong Lit Chor, Alexis

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 726
Nan Fung Commercial Centre
19 Lam Lok Street
Kowloon Bay
Kowloon
Hong Kong

29 February 2008

To the Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

On 18 December 2007, the Company entered into the Acquisition Agreement pursuant to which the Company has agreed to purchase and the Vendor has agreed to sell the entire issued share capital of Intersource which indirectly owns 21.26% equity interest in LC Genersoft.

The Consideration shall be RMB35,079,000 which shall be subject to adjustment by reference to the audited net profits after tax of LC Genersoft for the year(s) ended 31 December 2007 and/or 2008 provided that it shall not be less than RMB20,000,000 after such adjustment (if any).

The purposes of this circular are, among others, (i) to provide you with further information relating to the Acquisition and the Acquisition Agreement; (ii) to set out the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) to set out the recommendation from REXCAPITAL to the Independent Board Committee and the Independent Shareholders; and (iv) to give you the notice of EGM.

ACQUISITION AGREEMENT

Date: 18 December 2007

Parties: Vendor: Total Charm Investments Limited

Purchaser: The Company

To the best of directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares.

Consideration

The Consideration shall be RMB35,079,000 which shall be satisfied in cash by internal resources of the Group in the following manner:

(a) within 15 days from the date of the Acquisition Agreement, the Group has paid RMB10,000,000 to the Vendor as deposit; and

(b) subject to the fulfilment of the Conditions, the Group shall pay RMB25,079,000 to the Vendor within 30 days after the date of EGM.

The Consideration is subject to adjustment as follows:

(i) If the actual audited profit ("2007 Actual Profit") after tax (based on the accounting principles generally accepted in Hong Kong) of LC Genersoft for the financial year ended 31 December 2007 is less than RMB15,000,000, the Vendor shall refund to the Group an amount equal to the product of 11 times of the amount of shortfall and the Vendor's percentage of equity interest in LC Genersoft as at the date of the Acquisition Agreement (i.e. refund = (RMB15,000,000 - 2007 Actual Profit) x 21.26% x 11), subject to a maximum cap of RMB15,079,000; and/or

(ii) If the actual audited profit ("2008 Actual Profit") after tax (based on the accounting principles generally accepted in Hong Kong) of LC Genersoft for the financial year ending 31 December 2008 is less than RMB25,000,000, the Vendor shall refund to the Group an amount equal to the product of 11 times of the amount of shortfall and the Vendor's percentage of equity interest in LC Genersoft as at the date of the Acquisition Agreement (i.e. refund = (RMB25,000,000 - 2008 Actual Profit) x 21.26% x 11), provided that such refund together with any refund made by the Vendor under paragraph (i) above in respect of the financial year ending 31 December 2007 shall not exceed RMB15,079,000 in aggregate.

If either the 2007 Actual Profit is greater than RMB15,000,000 or the 2008 Actual Profit is greater than RMB25,000,000, no additional sum is required to be paid to the Vendor by the Purchaser.

The Consideration was arrived at after arm's length negotiation between the parties to the Acquisition Agreement with reference to, among other things, the price adjustment mechanism mentioned above and the strategic reasons mentioned under the paragraph headed "Reasons for Acquisition" below. Based on the information available to the Board, the unaudited net profit after tax of LC Genersoft for the eleven months ended 30 November 2007 was about RMB13,070,000. Accordingly, save for any unforeseen circumstances, it is not expected that an adjustment to the Consideration is necessary in respect of the financial performance of LC Genersoft for the year ended 31 December 2007.

The Directors consider that the Consideration and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions

The Acquisition is conditional upon the following conditions having been fulfilled at or before 12:00 noon on 31 March 2008 or such later date as may be agreed by the Group in writing:

(i) the Independent Shareholders passing at the EGM the necessary resolution approving the Acquisition;

(ii) the Group having satisfied with the results of the due diligence exercise to be carried out by it on Intersource, Jinan Qiyi and LC Genersoft;

(iii) the warranties given by the Vendor in the Acquisition Agreement remaining true and accurate in all material respect; and

(iv) all relevant approvals and consents for the Acquisition having been obtained.

If the Conditions cannot be fulfilled by the time specified, the Acquisition Agreement shall be terminated and the deposit paid by the Group shall be refunded by the Vendor within 10 days thereafter.

As at the Latest Practicable Date, none of the above condition has been fulfilled.

Completion

Completion is expected to take place on the second business day after the fulfillment of all the Conditions (or such later date as may be agreed by the parties to the Acquisition Agreement in writing).

INFORMATION ON INTERSOURCE AND JINAN QIYI

Intersource is an investment holding company incorporated in the British Virgin Islands with limited liability in April 2005. The authorised share capital of Intersource is US$50,000 divided into 50,000 ordinary shares with a par value of US$1.00 each, all of which have been issued and beneficially owned by the Vendor. Save for its investment in the entire equity interest of Jinan Qiyi, it has no other business and does not have any significant assets and liabilities. After Comletion, Intersource will be a wholly-owned subsidiary of the Group.

Jinan Qiyi is a wholly owned foreign enterprise established in PRC with limited liability in June 2003. It is principally engaged in investment holding and has acted as a passive investor of LC Genersoft. Save for its investment in 21.26% equity interest of LC Genersoft, it has no other business and does not have any significant assets and liabilities.

INFORMATION OF LC GENERSOFT

LC Genersoft is a domestic limited liability company established in the PRC in May 1994 . LC Genersoft and its subsidiaries are principally engaged in the development, distribution of enterprise resources planning products, and offering all-round services for enterprise informationization. Its products, as some of the most successful products in China top-tier market, have quite a large percentage of market share, and its clients includes state enterprises, domestic public companies, companies in pharmaceutical industry.

As at the date of the Acquisition Agreement, LC Genersoft is beneficially owned (i) as to approximately 48.69% by Shandong Inspur Cheeloosoft Company Limited, the issued A shares of which are listed on the Shanghai Stock Exchange in the PRC and a subsidiary of IP Group, (ii) as to approximately 30.05% by Inspur (Shandong) Electronic Information Limited , a wholly owned subsidiary of the Company and (iii) as to approximately 21.26% by Jinan Qiyi. There are five directors in LC Genersoft, two of which are nominated by Shandong Inspur Cheeloosoft Company Limited, two of which are nominated by the Group and one of which is nominated by Jinan Qiyi. Immediately after Completion, the Group will have three representatives in the board of directors of LC Genersoft. Immediately after Completion, the Company will indirectly own 51.31% equity interest in LC Genersoft.

The following table shows the turnover, net profit before tax and net profit after tax of LC Genersoft and its subsidiaries based on its consolidated audited financial statements for 2005 and 2006, and the unaudited consolidated management accounts for the eleven months ended 30 November 2007 (prepared under the generally accepted accounting principles in the PRC):

	For the eleven months ended 30 November 2007 *(unaudited)* *RMB'000*	For the year ended 31 December 2006 *(audited)* *RMB'000*	For the year ended 31 December 2005 *(audited)* *RMB'000*
Turnover	120,244	126,440	115,622
Net profit before tax	13,213	10,762	12,154
Net profit after tax	13,070	11,244	11,138

The audited consolidated net asset value of LC Genersoft as at 31 December 2006 was about RMB140,243,201.70. Based on the information available to the Board, the unaudited consolidated net asset value of LC Genersoft as at 30 November 2007 was about RMB153,773,000.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET GROUP

Set out in Appendix II to this circular is the accountants' report of the Target Group for the three financial years ended 31 December 2005, 2006 and 2007. Below is the management discussion and analysis on the performance of the Target Group for each of the aforesaid years:

(i) **For the year ended 31 December 2005**

Results and dividends

The Target Group recorded a turnover of approximately RMB117.1 million with a gross profit of approximately RMB50.3 million. Profit attributable to the equity holders of the Target amounted to approximately RMB7.8 million. No dividend was declared for the year.

Cashflow

There was a total of net cash outflow of approximately RMB6.7 million which was mainly due to: (a) net cash inflow from operating activities of approximately RMB10.7 million; (b) net cash outflow from investing activities of approximately RMB15.6 million; and (c) net cash outflow from financing activities of approximately RMB1.8 million.

Borrowing and banking facilities

As at 31 December 2005, the Target Group had a bank loans and overdraft of approximately RMB8.0 million in which RMB8.0 million was repayable within 12 months. The Target Group had no obligations under finance leases.

Net current assets

As at 31 December 2005, the Target Group had net current assets of approximately RMB39.6 million. The current assets mainly comprised inventories of approximately RMB0.7 million, trade and bill receivables of approximately RMB30.6 million, other receivables, prepayments and deposits of approximately RMB10.6 million, and bank and cash balances of approximately RMB17.2 million. The current liabilities mainly comprised trade payables of approximately RMB2.5 million, other payables and deposits received and accruals approximately RMB17.9 million, due to related companies of approximately RMB4.1 million, and bank borrowings of approximately RMB8.0 million.

Capital structure

As at 31 December 2005, the issued and fully paid up share capital of the Target Group amounted to RMB27.9 million. There was no change in the capital structure of the Target Group throughout the year.

Charges on the Target Group's assets

The bank borrowings by the Target Group was secured by Shandong Inspur Business System Limited and Shandong Inspur Cheeloo Software Industry Limited for RMB2 million and RMB6 million respectively.

Capital commitment

As at 31 December 2005, the Target Group had no capital commitments.

Remuneration policies and employee information

As at 31 December 2005, the Target Group had over 825 full time employees in the PRC. Total staff costs (including directors' emoluments) amounted to approximately RMB39.1 million for the year. The employees' remuneration is divided into two portions, one being fixed salary (accounting for about 80% of total staff costs) and the other being on a discretionary basis (accounting for about 20% of total staff costs) depending on the overall performance of the employees. The Target Group also provided staff in-house training according to the job requirements, based on the recommendations from the department head.

Significant investments, material acquisitions and disposals

During the year, the Target Group did not have any significant investments, material acquisitions and disposals. There was no plan for material investments or capital assets in the foreseeable future.

Gearing ratio

As at 31 December 2005, the Target Group's gearing ratio, expressed as a percentage of total borrowings over total assets, was approximately 7.4%.

Foreign exchange exposure

The Target Group did not have any hedging activities against its foreign exchange exposure nor did it adopt any formal hedging policies. During the year ended 31 December 2005, the Target Group carried out its business in the PRC and most of the transactions were denominated in RMB. The Target Group's assets and liabilities were mainly denominated in RMB. The management of the Target Group considered its risk exposure on foreign exchange during the year of review as minimal.

Contingent liabilities

As at 31 December 2005, the Target Group did not have any significant contingent liabilities.

(ii) **For the year ended 31 December 2006**

Results and dividends

The Target Group recorded a turnover of approximately RMB125.2 million with a gross profit of approximately RMB55.9 million, representing an increase of 6.9% and 11.% respectively compared to last year. Profit attributable to the equity holders of the Target amounted to approximately RMB5.4 million or a decrease of 30.0% as compared to last year. No dividend was declared for the year.

Cashflow

There was a total of net cash inflow of approximately RMB20.5 million which was mainly due to: (a) net cash outflow from operating activities of approximately RMB13.6 million; (b) net cash outflow from investing activities of approximately RMB23.4 million; and (c) net cash inflow from financing activities of approximately RMB30.3 million.

Borrowing and banking facilities

As at 31 December 2006, the Target Group had no bank loans and overdraft. The Target Group had no obligations under finance leases.

Net current assets

As at 31 December 2006, the Target Group had net current assets of approximately RMB71.9 million. The current assets mainly comprised inventories of approximately RMB0.4 million, trade and bill receivables of approximately RMB27.2 million, other receivables, prepayments and deposits of approximately RMB5.0 million, due from related companies of approximately RMB1.4 million, and bank and cash balances of approximately RMB37.7 million. The current liabilities mainly comprised trade payables of approximately RMB2.0 million, other payables and deposits received and accruals approximately RMB16.5 million, amounts due to customers for contract works of approximately RMB5.0 million.

Capital structure

As at 31 December 2006, the issued and fully paid up share capital of the Target Group amounted to RMB39.9 million. The share capital was increased by RMB12 million of the Target Group throughout the year.

Charges on the Target Group's assets

There was no bank borrowing by the Target Group throughout the year.

Capital commitment

As at 31 December 2006, the Target Group had no capital commitments.

Remuneration policies and employee information

As at 31 December 2006, the Target Group had over 1079 full time employees in the PRC. Total staff costs (including directors' emoluments) amounted to approximately RMB45.8 million for the year. The employees' remuneration is divided into two portions, one being fixed salary (accounting for about 80% of total staff costs) and the other being on a discretionary basis (accounting for about 20% of total staff costs) depending on the overall performance of the employees. The Target Group also provided staff in-house training according to the job requirements, based on the recommendations from the department head.

Significant investments, material acquisitions and disposals

During the year, the Target Group did not have any significant investments, material acquisitions and disposals. There was no plan for material investments or capital assets in the foreseeable future.

Gearing ratio

As at 31 December 2006, the Target Group's gearing ratio, expressed as a percentage of total borrowings over total assets, was approximately 0%.

Foreign exchange exposure

The Target Group did not have any hedging activities against its foreign exchange exposure nor did it adopt any formal hedging policies. During the year ended 31 December 2006, the Target Group carried out its business in the PRC and most of the transactions were denominated in RMB. The Target Group's assets and liabilities were mainly denominated in RMB. The management of the Target Group considered its risk exposure on foreign exchange during the year of review as minimal.

Contingent liabilities

As at 31 December 2006, the Target Group did not have any significant contingent liabilities.

(iii) **For the year ended 31 December 2007**

Results and dividends

The Target Group recorded a turnover of approximately RMB172.6 million with a gross profit of approximately RMB72.4 million, representing an increase of 37.9% and 29.6% respectively compared to last year. Profit attributable to the equity holders of the Target amounted to approximately RMB18.4 million or an increase of 237.3% as compared to last year. No dividend was declared for the year.

Cashflow

There was a total of net cash inflow of approximately RMB31.9 million which was mainly due to: (a) net cash outflow from operating activities of approximately RMB46.3 million; (b) net cash outflow from investing activities of approximately RMB14.8 million; and (c) net cash inflow from financing activities of approximately RMB0.5 million.

Borrowing and banking facilities

As at 31 December 2007, the Target Group had no bank loans and overdraft. The Target Group had no obligations under finance leases.

Net current assets

As at 31 December 2007, the Target Group had net current assets of approximately RMB91.8 million. The current assets mainly comprised inventories of approximately RMB0.7 million, trade and bill receivables of approximately RMB21.8 million, other receivables, prepayments and deposits of approximately RMB5.1 million, due from related companies subsidiaries of approximately RMB0.3 million, and bank and cash balances of approximately RMB69.6 million. The current liabilities mainly comprised trade payables of approximately RMB3.6 million, other payables and deposits received and accruals approximately RMB26.3 million, and amount due to customers for contract work of RMB4.2 million.

Capital structure

As at 31 December 2007, the issued and fully paid up share capital of the Target Group amounted to RMB39.9 million. There was no change in the capital structure of the Target Group throughout the year.

Charges on the Target Group's assets

There was no bank borrowing by the Target Group throughout the year.

Capital commitment

As at 31 December 2007, the Target Group had no capital commitments.

Remuneration policies and employee information

As at 31 December 2007, the Target Group had over 912 full time employees in the PRC. Total staff costs (including directors' emoluments) amounted to approximately RMB47.8 million for the year. The employees' remuneration is divided into two portions, one being fixed salary (accounting for about 80% of total staff costs) and the other being on a discretionary basis (accounting for about 20% of total staff costs) depending on the overall performance of the employees. The Target Group also provided staff in-house training according to the job requirements, based on the recommendations from the department head.

Significant investments, material acquisitions and disposals

During the year, the Target Group did not have any significant investments and material acquisitions and disposals. There was no plan for material investments or capital assets in the foreseeable future.

Gearing ratio

As at 31 December 2007, the Target Group's gearing ratio, expressed as a percentage of total borrowings over total assets, was approximately 0%.

Foreign exchange exposure

The Target Group did not have any hedging activities against its foreign exchange exposure nor did it adopt any formal hedging policies. During the year ended 31 December

2007, the Target Group carried out its business in the PRC and most of the transactions were denominated in RMB. The Target Group's assets and liabilities were mainly denominated in RMB. The management of the Target Group considered its risk exposure on foreign exchange during the year of review as minimal.

Contingent liabilities

As at 31 December 2007, the Target Group did not have any significant contingent liabilities.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in the distribution, sourcing and reselling of information technology products in Hong Kong, the PRC and other overseas markets. The Group also provides information technology advisory services to complement the Group's distribution business.

The Group has been 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. Based on the information available to the Group, the enterprise resources planning products provided by LC Genersoft has established its standing in the fields like pharmaceutical, petrochemical, food processing, machinery manufacturing and construction and the services provided by LC Genersoft is ranked the first among other management software providers. The finance management software provided by LC Genersoft is also ranked the first in terms of the degree of customers' satisfaction on the management software in the PRC. According to the information provided by LC Genersoft, about 20% of the listed companies in the PRC and about 35% of the securities companies in the PRC apply the management software system provided by LC Genersoft to their business.

In view of the customer profile, turnover and profitability of LC Genersoft, the Directors consider that the Acquisition will result in LC Genersoft becoming a subsidiary of the Company and the financial results of LC Genersoft will be consolidated into the accounts of the Group, thereby further enhancing the Group's overall business performance, strengthening its revenue base and diversifying its business risk by enlarging its product and service base.

FINANCIAL EFFECTS OF THE ACQUISITION

After Completion, the financial results of Intersource, LC Genersoft and its subsidiaries will be consolidated into the accounts of the Group. As shown in Appendix III to this circular, the Acquisition would result in an increase in the non-current assets of the Group of about HK$9 million (including goodwill of about HK$6.9 million), an increase in the current assets of the Group of about HK$97.4 million and an increase in current liabilities of the Group of about HK$36.9 million, leading to an increase in the net assets of the Group of about HK$69.5 million. With respect to the prospects of the Target Group, it is expected that there will be an increase in the earnings of the Group.

IMPLICATIONS UNDER THE GEM LISTING RULES

As IP Group, through its wholly owned subsidiary, Inspur Electronics (HK) Limited, beneficially owns 44.55% of the entire issued share capital of the Company, it is a controlling Shareholder for the purposes of the GEM Listing Rules. Although Shandong Inspur Cheeloosoft Company Limited is beneficially owned as to 26.49% by IP Group, it is regarded as a subsidiary of IP Group as IP Group is its single largest shareholder and has controlled the majority of its board of directors. As such, IP Group indirectly owns 12.90% equity interest in LC Genersoft and therefore is a substantial shareholder of the LC Genersoft. Pursuant to Rule 20.13(1)(b)(i), as the Acquisition involves acquiring an equity interest in LC Genersoft (one of the substantial shareholder of which is the controlling Shareholder), the Acquisition constitutes a connected transaction.

Reference is made to the announcement made by the Company dated 6 November 2007 in relation to the Inspur Communication Transaction which is a connected transaction on the part of the Company as acquisition from IP Group is involved. As LC Genersoft is related to IP Group, the Acquisition shall be aggregated with the Inspur Communication Transaction for the purposes of the Listing Rules. The relevant percentage ratio after aggregation with the Inspur Communication Transaction exceeds 25% but below 100%, it constitutes a major transaction. As such, the Acquisition is subject to, among other things, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. IP Group (including its ultimate beneficial owners and their respective associates) and the Vendor (including its ultimate beneficial owners and their respective associates) shall abstain from voting for the relevant resolution at the EGM due to their interest in the Acquisition.

EGM

Set out on pages 128 to 129 of this circular is a notice convening the EGM which will be held at Hong Kong International Trade & Exhibition Centre, Meeting Room 5, 7th Floor, 1 Trademart Drive, Kowloon Bay, Kowloon, at 10:30 a.m. on Monday, 17 March 2008 at which resolutions will be proposed to approve, among others, the Acquisition.

The Acquisition is subject to, among other things, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. IP Group (including its ultimate beneficial owners and their respective associates) and the Vendor (including its ultimate beneficial owners and their respective associates) shall abstain from voting for the relevant resolutions at the EGM due to their interest in the Acquisition. Save as disclosed above, the Directors are not aware of any other Shareholders who have a material interest in the Acquisition and therefore required to abstain from voting at the EGM. As at the Latest Practicable Date, IP Group (including its ultimate beneficial owners and their respective assoicates) and the Vendor (including its ultimate beneficial owners and their respective associates) control or are entitled to exercise control over the entire voting right in respect of their Shares in the Company. Therefore, a total of 1,350,000,000 Shares, representing 44.55% of the issued Shares, shall abstain from voting at the EGM. There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon IP Group (including its ultimate beneficial owners and their respective associates) and the Vendor (including its ultimate beneficial owners and their respective associates); and (ii) no obligation or entitlement of each of IP Group (including its ultimate beneficial owners and their respective associates) and the Vendor (including its ultimate beneficial owners and their respective associates) as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy and return the same to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar in Hong Kong, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

According to articles of association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Notwithstanding the above, the resolution approving the Acquisition Agreement and the transactions contemplated thereunder will be voted by way of a poll in the EGM.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 18 of this circular. The Independent Board Committee, having taken into account the advice of REXCAPITAL, the text of which is set out on pages 19 to 27 of this circular, considers that the Acquisition Agreement was entered into upon normal commercial terms following arm's length negotiations between the parties thereto and that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

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

Yours faithfully
By order of the board of Directors of
Inspur International Limited
Sun Pishu
Chairman

INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8141)

29 February 2008

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 29 February 2008 issued by the Company (the "Circular"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Acquisition and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition, and to recommend how the Independent Shareholders should vote at the EGM. REXCAPITAL has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 17 of the Circular, and the letter from REXCAPITAL to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Acquisition, as set out on pages 19 to 27 of the Circular.

Having taken into account of the advice of REXCAPITAL, we consider that the Acquisition Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

Meng Xiang Xu	**Liu Ping Yuan**	**Wong Lit Chor, Alexis**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from REXCAPITAL to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, and is prepared for inclusion in this circular.

REXCAPITAL (Hong Kong) Limited
34th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

29 February 2008

The Independent Board Committee and
the Independent Shareholders

Inspur International Limited
Room 726
Nan Fung Comm Centre
19 Lam Lok Street
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of the terms of the Acquisition Agreement, details of which are set out in the circular to the Shareholders dated 29 February 2008 (the "Circular"), of which this letter forms a part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

The Company announced that on 18 December 2007, the Company entered into the Acquisition Agreement, pursuant to which, the Company has agreed to purchase and the Vendor has agreed to sell the entire issued share capital of Intersource which indirectly owns 21.26% equity interest in LC Genersoft at a cash consideration of RMB35,079,000 (subject to adjustment).

As stated in the Letter from the Board (the "Letter"), IP Group, through its wholly owned subsidiary, Inspur Electronics (HK) Limited, beneficially owns 44.55% of the issued share capital of the Company, it is a controlling Shareholder for the purposes of the GEM Listing Rules. Although Shandong Inspur Cheeloosoft Company Limited which has a beneficial interest of 48.69% in LC

Genersoft is beneficially owned as to 26.49% by IP Group, it is regarded as a subsidiary of IP Group as IP Group is its single largest shareholder and has controlled the majority of its board of directors. As such, IP Group indirectly owns 12.90% equity interest in LC Genersoft and therefore is a substantial shareholder of LC Genersoft. Pursuant to Rule 20.13(1)(b)(i), as the Acquisition involves acquiring an equity interest in LC Genersoft (one of the substantial shareholder of which is the controlling Shareholder), the Acquisition constitutes a connected transaction.

Reference is made to the announcement made by the Company dated 6 November 2007 in relation to the Inspur Communication Transaction which is a connected transaction on the part of the Company as acquisition from IP Group is involved. As LC Genersoft is related to IP Group, the Acquisition shall be aggregated with the Inspur Communication Transaction for the purposes of the Listing Rules. The relevant percentage ratio after aggregation with the Inspur Communication Transaction exceeds 25% but below 100%, it constitutes a major transaction. As such, the Acquisition is subject to, among other things, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. IP Group, the Vendor and their respective ultimate beneficial owners and their respective associates shall abstain from voting for the relevant resolution at the EGM due to their interest in the Acquisition.

The Independent Board Committee, comprising Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis, has been established to advise the Independent Shareholders as to whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the terms of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company and its Director(s). We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and the Director(s), for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Director(s) in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Director(s) and have been confirmed by the Director(s) that no material facts and representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Director(s) and management of the Company. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation regarding the Acquisition Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Acquisition Agreement, we have taken into consideration the following factors and reasons:

I. THE ACQUISITION

1. **Background and Reasons for the Acquisition**

The Company is an investment holding company and its subsidiaries are principally engaged in the distribution, sourcing and reselling of information technology products in Hong Kong, the PRC and other overseas markets. The Group also provides information technology advisory services to complement the Group's distribution business.

As set out in the Letter, Intersource is an investment holding company incorporated in the British Virgin Islands with limited liability in April 2005. The authorized share capital of Intersource is US$50,000 divided into 50,000 ordinary shares with a par value of US$1.00 each, all of which have been issued and beneficially owned by the Vendor. Save for its investment in the entire equity interest of Jinan Qiyi, it has no other business and does not have any significant assets and liabilities.

Jinan Qiyi is a wholly owned foreign enterprise established in PRC with limited liability in June 2003. It is principally engaged in investment holding and has acted as a passive investor of LC Genersoft. Save for its investment in 21.26% equity interest of LC Genersoft, it has no other business and does not have any significant assets and liabilities.

LC Genersoft is a domestic limited liability company established in the PRC in May 1994. LC Genersoft, and its subsidiaries, are principally engaged in the development, distribution of enterprise resources planning products, and offering all-round services for enterprise informationization. Its products, as some of the most successful products in China top-tier market, have quite a large percentage of market share, and its clients includes state enterprises, domestic listed companies and companies in pharmaceutical industry.

As at the date of the Acquisition Agreement, LC Genersoft is beneficially owned (i) as to approximately 48.69% by Shandong Inspur Cheeloosoft Company Limited, the issued A shares of which are listed on the Shanghai Stock Exchange in the PRC and a subsidiary of IP Group; (ii) as to approximately 30.05% by Inspur (Shangdong) Electronic Information Limited, a wholly owned subsidiary of the Company; and (iii) as to approximately 21.26% by Jinan Qiyi.

As set out under the section headed "INFROMATION ON LC GENERSOFT" in the Letter, the following table shows the turnover, net profit before tax and net profit after tax of LC Genersoft and its subsidiaries based on its audited consolidated financial statements for 2005 and 2006, and the unaudited consolidated management accounts for the eleven months ended 30 November 2007 (prepared under the generally accepted accounting principles in the PRC):

	For the eleven months ended 31 November 2007 (unaudited) *RMB'000*	**For the year ended 31 December 2006 (audited)** *RMB'000*	**For the year ended 31 December 2005 (audited)** *RMB'000*
Turnover	120,244	126,440	115,622
Net profit before tax	13,213	10,762	12,154
Net profit after tax	13,070	11,244	11,138

The audited consolidated net asset value of LC Genersoft as at 31 December 2006 was about RMB140,243,201.70. Based on the information available to the Board, the unaudited consolidated net asset value of LC Genersoft as at 30 November 2007 was about RMB153,773,000. The accountants' report of the Target Group for the three financial years ended 31 December 2005, 2006 and 2007 prepared under accounting principles generally accepted in Hong Kong has been set out in Appendix II of the Circular.

As disclosed in the Letter, the Group has been 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. Based on the information available to the Group, the enterprise resources planning products provided by LC Genersoft has established its standing in the fields like pharmaceutical, petrochemical, food processing, machinery manufacturing and construction and the services provided by LC Genersoft is ranked the first among other management software providers. The finance management software provided by LC Genersoft is also ranked the first in terms of the degree of customers' satisfaction on the management software in the PRC. As set out in the Letter, according to the information provided by LC Genersoft, about 20% of the listed companies in the PRC and about 35% of the securities companies in the PRC apply the management software system provided by LC Genersoft to their business. In view of the customer profile, turnover and profitability of LC Genersoft, the Directors consider that the Acquisition will result in LC Genersoft becoming a subsidiary of the Company and the financial results of LC Genersoft will be consolidated into the accounts of the Group, thereby further enhancing the Group's overall business performance, strengthening its revenue base and diversifying its business risk by enlarging its product and service base.

We have reviewed the financial statements of LC Genersoft and enquired and discussed with the management of the Company in respect of, among others, the business, the customers network and the positioning of LC Genersoft in its industry. We have also reviewed the financial statements of the Group and note from the interim report 2007 of the Group (the "IR 2007") that the Group will continue to look for opportunities to cooperate with new technology partners who can complement its own products and business; and it is also looking for opportunities in PRC and will utilize the expertise and connections with its reseller network to accelerate entry to the PRC market. Having considered (i) the Acquisition provides opportunities to the Company to enhance its revenue sources and therefore diversify its business risks; (ii) LC Genersoft has a solid existing customer network; (iii) the profitability of LC Genersoft for the past two years ended 31 December 2006 and the eleven months ended 30 November 2007; (iv) the potential synergies to be realized through the Acquisition such that the Company and LC Genersoft could share the expertise and the client network with each other and therefore complement both of the existing and new diversified products and business and therefore align with the business strategy of the Group as stated in IR 2007; and (v) the management structure of PRC enterprises in general has been under a continuously reform towards international standards in recent years and thus the demand of the enterprise resources planning products which are widely adopted by the enterprises in foreign countries for their respective internal management system, is anticipated to be on an upward trend under the fast growing economy in the PRC, we agree with the view of the Directors as stated above and are of the opinion that the Acquisition is in the ordinary course of business of the Company and in the interests of the Company and its Shareholders as a whole.

2. **Consideration for the Acquisition**

The Consideration of RMB35,079,000 shall be satisfied in cash and subject to adjustment (the "Adjustment") as follows:

(i) If the actual audited profit ("2007 Actual Profit") after tax (based on the accounting principles generally accepted in Hong Kong) of LC Genersoft for the financial year ended 31 December 2007 is less than RMB15,000,000 (the "First Profit Guaranteed"), the Vendor shall refund to the Group an amount equal to the product of 11 times of the amount of shortfall and the Vendor's percentage of equity interest in LC Genersoft (i.e. 21.26%) as at the date of the Acquisition Agreement (i.e. refund = (RMB15,000,000 - 2007 Actual Profit) x 21.26% x 11), subject to a maximum cap of RMB15,079,000; and/or

(ii) If the actual audited profit ("2008 Actual Profit") after tax (based on the accounting principles generally accepted in Hong Kong) of LC Genersoft for the financial year ending 31 December 2008 is less than RMB25,000,000 (the "Second Profit Guaranteed"), the Vendor shall refund to the Group an amount equal to the product of 11 times of the amount of shortfall and the Vendor's percentage of equity interest in LC Genersoft (i.e. 21.26%) as at the date of the Acquisition Agreement (i.e. refund = (RMB25,000,000 - 2008 Actual Profit) x 21.26% x 11), provided that such refund together with any refund made by the Vendor under paragraph (i) above in respect of the financial year ended 31 December 2007 shall not exceed RMB15,079,000 in aggregate.

As stated in the Letter, the Consideration was arrived at after arm's length negotiation between the parties to the Acquisition Agreement with reference to, among other things, the Adjustment and the strategic reasons mentioned under the paragraph headed "Reasons for Acquisition" in the Letter. As advised by the Company, based on the information available to the Board as at the date of the Acquisition Agreement, the unaudited net profit after tax of LC Genersoft for the eleven months ended 30 November 2007 was about RMB13.07 million. Accordingly, save for any unforeseen circumstances, it is not expected that an adjustment to the Consideration is necessary in respect of the financial performance of LC Genersoft for the year ended 31 December 2007. The Directors consider that the Consideration and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Consideration of RMB35,079,000 for 21.26% equity interest in LC Genersoft (which equal to RMB165,000,000 for 100% equity interest in LC Genersoft) represents a price-earning ratio ("PER") of (i) 11 times the First Guaranteed Profit; and (ii) 6.6 times the Second Guaranteed Profit.

In order to assess the reasonableness of the PER, we have identified comparable companies (the "Comparables") being listed companies on the Stock Exchange (on GEM or Mainboard) engaged in similar businesses of LC Genersoft including, but not limited to, the development, distribution of enterprise resources planning products, and offering all-round services for enterpriseinformationization. To the best of our knowledge, we have identified 9 Comparables by searching through published information on the Stock Exchange's website. The Comparables may not contain all listed companies in the related industries. The PER is based on their respective market capitalization determined in according to the Stock Exchange as at 18 December 2007, being the date of the Acquisition Agreement, and their respective latest publicly available full year information available in the Stock Exchange's website. As the Comparables are engaged in similar business of LC Genersoft and their respective PER are determined with reference to the date of the Acquisition Agreement, we consider the Comparables are fair and representative samples. Shareholders should note that the stated PERs of the respective companies could be sensitive to, amongst other things, each of their particular businesses, financial position and market price performance of the shares of the respective companies and therefore, the PERs of the Comparables listed below are for information and reference purposes only.

Comparables	**Principal business**	**PER** *(times)*
Computer And Technologies Holdings Ltd. (Stock code: 46)	Provision of system and network integration services, IT solutions implementation, application development services, enterprise applications, IT operation outsourcing services, and distribution of digital media products	20.39

Comparables	Principal business	PER *(times)*
Kingdee International Software Group Co. Ltd. (Stock code: 268)	Develop and sale of enterprise application software and Java-based middleware, provide software-related customer service and sale of hardware	24.83 *(Note)*
Founder Holdings Limited (Stock code: 418)	Software development and systems integration, sales of information products	23.38
Quaypoint Corporation Ltd. (Stock code: 2330)	Research, design, integration and supply of automation and control systems, components, software applications, products and services for the automation of various major industries and buildings	42.19 *(Note)*
FlexSystem Holdings Limited (Stock code: 8050)	Development and sale of software products and provision of application software services	37.37
Qianlong Technology International Holdings Ltd. (Stock code: 8015)	Development and trading of computer software, provision of the related maintenance and consulting services and investment in IT companies	30.19 *(Note)*
Excel Technology International Holdings Ltd. (Stock code: 8048)	Sale of enterprise software products and provision of maintenance services, systems integration services and resale of complementary hardware and software products, consultancy services, and services in respect of ASP business	93.33
Universal Technologies Holdings Ltd. (Stock code: 8091)	Provision of enterprise solutions with a focus online payment and logics to enterprises in the PRC	42.96
Nanjing Sample Technology Co. Ltd. — H Shares (Stock code: 8287)	Provision of video security system solutions, sales of security system software and related computer products	14.71 *(Note)*
	Range:	14.71 to 93.33
	Mean:	36.59

Note: For calculation purposes, the earning per share recorded in RMB will converted into HK$ under the exchange rate of HK$1 to RMB0.95.

As indicated in the above table, the PERs based on the Initial Guaranteed Profit and the Second Guaranteed Profit, being 11 times and 6.6 times respectively, are both below the PERs of the Comparables which ranged from 14.71 times to 93.33 times.

Having considered the above and the audited net profit after tax of LC Genersoft for the year ended 31 December 2007 (based on the accounting principles generally accepted in Hong Kong) as set out in Appendix II in the Circular has already fulfilled the requirement of the First Profit Guaranteed, we consider the Adjustment (including the aggregate maximum cap of RMB15,079,000) and the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

3. **Financial effects of the Acquisition**

(i) *Net asset value*

As reported in the annual report of the Group for the year ended 31 December 2006 and the IR 2007, the audited consolidated net asset value of the Group as at 31 December 2006 was approximately HK$164.85 million and the unaudited consolidated net asset value of the Group as at 30 June 2007 was approximately HK$160.72 million. As advised by the Company, upon completion of the Acquisition, there will not be significant impact to the net asset value of the Group.

(ii) *Earnings*

As mentioned above, upon completion of the Acquisition, LC Genersoft will be consolidated into the Group. In view of the First Profit Guaranteed, the Second Profit Guaranteed and the synergy effects to the Group as a result of the Acquisition, we consider that it is a fair expectation that the Acquisition will have a positive impact on the future earning growth potential of the Group.

(iii) *Gearing ratio*

According to the IR 2007, the Group has an unaudited bank balances and cash of approximately HK$218 million as at 30 June 2007. As stated in the Letter, the Consideration will be satisfied in cash, hence, the bank balances and cash classified under the current assets of the consolidated balance sheet of the Group will be decreased to the extent of the Consideration of RMB35,079,000. As the Consideration will be settled by internal resources of the Group, it is expected that there is no significant impact on the gearing ratio as a result of the Acquisition.

RECOMMENDATION

Taking into account the foregoing, we consider the terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to approve the Acquisition to be proposed at the EGM.

Yours faithfully,
For and on behalf of
REXCAPITAL (Hong Kong) Limited
Sam Lum
Executive Director

(A) FINANCIAL SUMMARY

The following information has been extracted from the annual reports of the Company for 2005 and 2006 in respect of the audited consolidated financial information of the Group for each of the three years ended 31 December 2006 (their auditors' reports were not qualified):

RESULTS

	For the year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Turnover	635,827	729,561	870,619
Profit before taxation	22,330	29,158	27,917
Taxation	(4,668)	(4,943)	(2,770)
Profit for the year	17,662	24,215	25,147

ASSETS AND LIABILITIES

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Total assets	106,422	288,939	433,346
Total liabilities	(40,831)	(167,234)	(268,501)
	65,591	121,705	164,845

TOTAL EQUITY

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Equity attributable to equity holders of the parent	65,591	121,705	158,127
Minority Interests	—	—	6,718
	65,591	121,705	164,845

The following is the audited financial statements of the Group for the year ended 31 December 2006 together with accompanying notes (the auditors' report on which is not qualified) as extracted from the Company's 2006 annual report. Reference to page numbers in the report of the auditors and notes to the financial statements is to the page numbers in the Company's 2006 annual report.

Consolidated Income Statement

For the year ended 31 December 2006

	NOTES	**2006**	**2005**
		HK$'000	*HK$'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	12	15,333	12,000
Earnings per share	13		
Basic		HK4.96 cents	HK5.34 cents
Diluted		HK4.94 cents	HK4.87 cents

Consolidated Balance Sheet

At 31 December 2006

	NOTES	**2006** *HK$'000*	**2005** *HK$'000*
Non-current assets			
Property, plant and equipment	14	1,762	603
Interests in associates	15	58,512	21,602
		60,274	22,205
Current assets			
Inventories	16	45,297	88,126
Trade receivables	17	13,787	2,966
Prepayments, deposits and other receivables	17	8,299	35
Amount due from an associate	17	58	—
Amounts due from fellow subsidiaries	17	15,523	10,200
Amount due from ultimate holding company	17	141,053	2
Taxation recoverable		897	—
Bank balances and cash	17	148,158	165,405
		373,072	266,734
Current liabilities			
Trade payables	18	61,264	64,294
Other payables and accrued expenses	18	20,825	5,349
Amounts due to fellow subsidiaries	18	7,099	916
Amount due to immediate holding company	18	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	21	179,274	95,102
		164,845	121,705
Capital and reserves			
Share capital	19	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	—	—	—	11,051	—	—	11,051	—	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

The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the reorganisation prior to the listing of the Company's shares.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTE	**2006**	**2005**
		HK$'000	*HK$'000*
OPERATING ACTIVITIES			
Profit before taxation		27,917	29,158
Adjustments for:			
Share of profits of associates		(2,645)	(2,447)
Interest income		(2,718)	(569)
Interest expense		11,984	436
Depreciation		589	439
Gain on disposal of an associate		(384)	—
Net loss on disposal of property, plant and equipment		2	—
Write-down of inventories		1,621	2,382
Operating cash flows before movements in working capital		36,366	29,399
Decrease (increase) in inventories		41,208	(45,410)
(Increase) decrease in trade receivables		(10,821)	15,528
(Increase) decrease in prepayments, deposits and other receivables		(8,264)	724
Increase in amount due from an associate		(58)	—
Increase in amounts due from fellow subsidiaries		(5,323)	(2,760)
Increase in amount due from ultimate holding company		(141,051)	—
(Decrease) increase in trade payables		(3,030)	28,327
Increase in other payables and accrued expenses		5,505	2,640
Decrease in amount due to ultimate holding company		—	(393)
Increase in amount due to immediate holding company		39	—
Increase in amounts due to fellow subsidiaries		6,183	916
Cash (used in) generated from operations		(79,246)	28,971
Income taxes paid		(5,240)	(5,148)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(84,486)	23,823

	NOTE	**2006** *HK$'000*	**2005** *HK$'000*
INVESTING ACTIVITIES			
Acquisition of an associate		(39,988)	—
Purchase of property, plant and equipment		(2,231)	(3)
Proceeds from disposal of an associate		6,931	—
Acquisition of a subsidiary	22	6,731	18
Interest received		2,718	569
Proceeds from disposal of property, plant and equipment		515	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(25,324)	584
FINANCING ACTIVITIES			
Proceeds from issuance of redeemable convertible preferred shares		93,210	101,053
Proceeds from exercise of share options		6,901	—
Dividend paid		(15,333)	(12,000)
Proceeds from placement of shares		—	18,720
Share issue expenses		—	(146)
NET CASH FROM FINANCING ACTIVITIES		84,778	107,627
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(25,032)	132,034
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		165,405	33,592
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		7,785	(221)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash		148,158	165,405

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

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, 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, returns 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	Manufacture and trading of computer products	Development and sales of computer software	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	61,810	162,002	1,967	225,779
Interests in associates	—	—	58,512	58,512
Unallocated corporate assets				149,055
Consolidated total assets				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	Manufacture and trading of computer products	Development and sales of computer software	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 exemption 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 *(Note 10)*		
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. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eleven (2005: nine) directors were as follows:

	Executive director				Non-executive director				Independent non-executive director			
	Leung Chi Ho	Sun Pishu	Wang Miao	Zhang Lei	Wang Hung, Alex	Xin Wei Hua	Marc Evan Brown	William James Fass	Liu Ping Yuan	Meng Xiang Xu	Wong Lit Chor, Alexis	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—	—	—	—	—	60	60	84	204
Other emoluments												
Salaries and other benefits	884	450	1,040	280	—	—	—	—	—	—	—	2,654
Contributions to retirement benefits scheme	12	—	—	—	—	—	—	—	—	—	—	12
Total emoluments	896	450	1,040	280	—	—	—	—	60	60	84	2,870

	Executive director				Non-executive director		Independent non-executive director			
	Leung Chi Ho	Sun Pishu	Wang Miao	Zhang Lei	Wang Hung, Alex	Xin Wei Hua	Liu Ping Yuan	Meng Xiang Xu	Wong Lit Chor, Alexis	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—	—	—	60	60	68	188
Other emoluments										
Salaries and other benefits	884	450	240	280	—	—	—	—	—	1,854
Contributions to retirement benefits scheme	12	—	—	—	—	—	—	—	—	12
Total emoluments	896	450	240	280	—	—	60	60	68	2,054

No directors of the Company waived any remuneration during both years.

11. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are set out in note 10 above. The emoluments of the remaining one (2005: one) highest paid individuals were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	449	364
Retirement benefit scheme contributions	12	12
	461	376

12. 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.

13. 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	2005
	HK$'000	*HK$'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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST					
At 1 January 2005	70	—	1,413	—	1,483
Additions	—	—	3	—	3
Write-off	(70)	—	(11)	—	(81)
At 31 December 2005	—	—	1,405	—	1,405
Exchange adjustments	—	21	12	4	37
Additions	—	960	545	726	2,231
Disposals	—	(30)	(45)	(508)	(583)
At 31 December 2006	—	951	1,917	222	3,090
DEPRECIATION					
At 1 January 2005	47	—	397	—	444
Charge for the year	23	—	416	—	439
Eliminated as write-off	(70)	—	(11)	—	(81)
At 31 December 2005	—	—	802	—	802
Exchange adjustments	—	2	1	—	3
Charge for the year	—	89	468	32	589
Eliminated on disposals	—	(13)	(31)	(22)	(66)
At 31 December 2006	—	78	1,240	10	1,328
CARRYING VALUES					
At 31 December 2006	—	873	677	212	1,762
At 31 December 2005	—	—	603	—	603

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	over the lease term
Machinery	10% - 20%
Furniture, fixtures and office equipment	10% - 331/3%
Motor vehicles	10% - 20%

15. INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in associates		
— unlisted	53,591	19,155
Share of post-acquisition profits	4,921	2,447
	58,512	21,602

As at 31 December 2006, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of registration and operation	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
山東浪潮商用系統有限公司 (「山東商用」)	Incorporated	PRC	40%	40%	Development, production and sale of computer software and computer peripherals
浪潮集團通用軟件有限公司 ("Inspur Genersoft")	Incorporated	PRC	30.05%	30.05%	Development, production and sale of computer software and computer peripherals

Included in the cost of investment in associates is goodwill of approximately HK$4,168,000 (2005: HK$1,105,000) arising on acquisitions of associates. The movement of goodwill is set out below.

	HK$'000
Cost	
At 1 January 2005	—
Arising on acquisition of associates	1,105
At 31 December 2005	1,105
Exchange adjustments	40
Arising on acquisition of an associate	3,384
Eliminated upon disposal of an associate	(361)
At 31 December 2006	4,168

The summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	*HK$'000*
Total assets	216,221	77,641
Total liabilities	(46,922)	(30,182)
Net assets	169,299	47,459
Group's share of net assets of associates	54,344	20,497
Revenue for the year	221,523	68,391
Profit for the year	9,618	5,575
Group's share of results of associates for the year	2,645	2,447

16. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	1,029	—
Work in progress	5,063	—
Finished goods held for sale	39,205	88,126
	45,297	88,126

17. TRADE RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

The Group allows an average trade credit period of 30 to 90 days to its trade customers, trade receivables due from its fellow subsidiaries and ultimate holding company, the following is an aged analysis of trade receivables, amounts due from fellow subsidiaries and ultimate holding company at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Trade receivables		
0 - 30 days	13,136	2,896
31 - 60 days	620	—
61 - 90 days	3	—
Over 90 days	28	70
	13,787	2,966
Amounts due from fellow subsidiaries		
0 - 30 days	14,175	8,773
31 - 60 days	—	1,427
61 - 90 days	1,348	—
	15,523	10,200
Amount due from ultimate holding company		
0 - 30 days	43,788	2
31 - 60 days	56,490	—
61 - 90 days	40,775	—
	141,053	2

Other receivables are recoverable within one year.

The amount due from an associate is unsecured, interest free and recoverable within one year.

The directors consider that the fair values of the current financial assets approximate to the corresponding carrying amounts.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair values. The bank balances carried interest at market rates which range from 0.72% to 4.60%. (2005: 0.1% to 1.75%). At 31 December 2006, the bank balances and cash of approximately HK$121,337,000 (2005: HK$156,400,000) were denominated in RMB which is not freely convertible into other currencies.

18. TRADE PAYABLES AND OTHER CURRENT FINANCIAL LIABILITIES

The following is an aged analysis of trade payables and amounts due to fellow subsidiaries for the purchase of goods and services received at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Trade payables		
0 - 30 days	40,831	64,224
31 - 60 days	17,785	70
61 - 90 days	1,918	—
Over 90 days	730	—
	61,264	64,294
Amounts due to fellow subsidiaries		
0 - 30 days	4,247	916
31 - 60 days	2,852	—
	7,099	916

Trade payables, other payables and accrued expenses principally comprise amounts outstanding for trade purposes and ongoing costs. The average credit period taken for trade purchases is up to 30 to 60 days.

The amount due to immediate holding company is unsecured, interest free and repayable on demand.

The directors consider that the fair values of the current financial liabilities approximate to the corresponding carrying amounts.

19. 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. Details of which are set out in note 22(b).

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

20. SHARE OPTION SCHEME

Equity-settled share options scheme

The Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and Share Option Scheme (the "Option Scheme") of the Company were adopted by the Company pursuant to the written resolutions of all shareholders passed on 8 April 2004 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. The Pre-IPO Scheme and the Option Scheme shall be valid and effective for a period of ten years after the date of its adoption. Under the Pre-IPO Scheme and the Option Scheme, the board of directors of the Company may grant options to eligible participants including employees, executives or officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

At 31 December 2006, the number of shares available for issue and remained outstanding under the Pre-IPO Scheme are 24,000,000 shares (2005: 33,200,000 shares) representing 4.7% (2005: 6.8%) of the issued share capital of the Company. The number of shares under the Option Scheme are 26,000,000 shares (2005: 40,000,000 shares) representing 5.1% (2005: 8.1%) of the issued share capital of the Company.

The total number of shares in respect of which options may be granted under each of the Pre-IPO Scheme and the Option Scheme is not permitted to exceed 10% of the shares of the Company of the adoption date of the Pre-IPO Scheme and the Option Scheme unless prior approval from the Company's shareholders in general meeting has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Scheme and the Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares in respect of which options may be granted to any eligible participant in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, unless prior approval from the Company's shareholders in general meeting has been obtained. Options granted to substantial shareholder or an independent non-executive director of the Company in excess of 0.1% of the Company's share in issue and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders in general meeting.

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

On 8 April 2004, a total of 40,000,000 share options were granted to certain employees and directors of the Group under the Pre-IPO Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$0.324 per share.

On 28 December 2004, a total of 40,000,000 share options were granted to certain employees of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$0.28 per share. The fair value of the Company's shares at 28 December 2004 was HK$0.28.

All the share options do not have any vesting conditions and are fully vested on the grant date.

Details of specific categories of options are as follows:

	Date of grant	**Exercise period**	**Exercise price** *HK$*
Pre-IPO Scheme	8 April 2004	8 April 2004 to 7 April 2014	0.324
Option Scheme	28 December 2004	28 December 2004 to 27 December 2014	0.280

The following table discloses details of the Company's share options held by employees and movements in such holdings during the year:

Option type	**Outstanding at 1.1.2005**	**Cancelled during the year**	**Outstanding at 1.1.2006**	**Exercised during the year**	**Outstanding at 31.12.2006**
Pre-IPO Scheme	40,000,000	(6,800,000)	33,200,000	(9,200,000)	24,000,000
Option Scheme	40,000,000	—	40,000,000	(14,000,000)	26,000,000
	80,000,000	(6,800,000)	73,200,000	(23,200,000)	50,000,000

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise and immediately before the dates of exercise are HK$1.029 and HK$1.056 respectively.

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

Option type	Outstanding at 1.1.2005	Granted during the year	Outstanding at 1.1.2006	Granted during the year	Outstanding at 31.12.2006
Pre-IPO Scheme	24,000,000	—	24,000,000	—	24,000,000

Save as disclosed above, no share options had been granted, cancelled, lapsed or exercised during the year.

21. REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Company issued 132,964,342 and 101,315,217, 6% Preferred Shares at a par value of HK$0.76 and HK$0.92 each on 8 December 2005 and 21 April 2006 respectively. The Preferred Shares are denominated in Hong Kong dollars. The holder of the Preferred Shares shall have the right to convert the Preferred Shares, at any time from the date of allotment of the Preferred Shares and up to the maturity date, which is the sixth anniversary of 8 December 2005 and without payment of any additional consideration at the conversion rate of one Preferred Share to one ordinary share. If the Preferred Shares have not been converted, they will be redeemed on 8 December 2011 at par. Interest of 6% will be paid annually up until the settlement date. The details of terms of the Preference Shares are set out in the Company's circular dated 28 October 2005.

The Preferred Shares contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation", the proceeds from issue of the Preferred Shares have been allocated between the liability and equity elements. The equity element is presented in equity heading "Preferred shares equity reserve".

The movement of the liability component of the Preferred Shares for the year is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	95,102	—
Liability component recognised during the year	82,159	94,666
Interest charge	11,984	436
Coupon interest payable included in other payables and accrued expenses	(9,971)	—
	179,274	95,102

The weighted average effective interest rate of the liability component is 8.65% (2005: 7.38%).

22. ACQUISITION OF A SUBSIDIARY

(a) On 17 February 2006, the Group entered into a subscription agreement with 山東浪潮電子政務軟件有限公司 ("Inspur E-Government") to subscribe for a 53.3% of the enlarged registered capital of Inspur E-Government ("Subscription") at a consideration of RMB8,000,000 (equivalent to HK$7,692,000). The Subscription was completed on 24 March 2006 and Inspur E-Government became a non-wholly owned subsidiary of the Group. At the date of Subscription, Inspur E-Government has not yet commenced its operation. After the Subscription, the only asset held by Inspur E-Government is the bank balances and cash amounting to approximately HK$14,423,000. Accordingly, the net cash inflow amounted to approximately HK$6,731,000.

(b) During the year ended 31 December 2005, the Group acquired 100% issued share capital of Timeone by the issuance of 39,100,000 shares of the Company to the vendors. This transaction has been accounted for using the acquisition method of accounting.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net assets acquired:	
Interests in associates	18,050
Bank balances and cash	18
Other Payable	(14)
	18,054
Goodwill	1,105
	19,159
Total consideration, satisfied by issuance of 39,100,000 shares of the Company *(Note)*	19,159
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	18

Note: As the consideration for the acquisition of Timeone, 39,100,000 ordinary share of the Company with par value of HK$0.01 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the acquisition amounted to HK$19,159,000.

The goodwill of approximately HK$1,105,000 represents the goodwill arising on acquisition of interests in associates during the year ended 31 December 2005.

Timeone contributed nil revenue and approximately HK$2,794,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total Group profit for the period would have been approximately HK$24,124,000 and there would be no impact to group's turnover. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

23. LEASE COMMITMENTS

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	431	252
In the second to fifth years inclusive	—	96
	431	348

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

24. RETIREMENT BENEFIT SCHEME

The Group operates the Mandatory Provident Fund Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The Group's employees are required to join the scheme. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregated income.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at a fixed percentage of their covered payroll. The Group has no other obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above. The total contributions in respect of the current accounting period charged to consolidated income statement amounting to HK$307,000 (2005: HK$30,000).

25. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in notes 17 and 18 respectively, the Group had entered into the following related party transactions during the year:

	2006	2005
	HK$'000	*HK$'000*
Sales of computer components *(Note a)*	127,942	108,502
Sales of computer products *(Note b)*	146,712	—
Provision of IT Services *(Note c)*	1,143	—
Purchase of goods *(Note b)*	22,333	—
Commission paid *(Note d & e)*	12	916

Notes:

(a) On 1 April 2004, Inspur Corporation appointed the Group as the exclusive agent for Inspur Corporation and its subsidiaries (together referred to as "the Inspur Group") for the overseas sourcing of computer components for a period of two years and nine months from 1 April 2004 to 31 December 2006. The Inspur Group will, with reference to the then market prices, pay a premium of not less than 1.5% above the purchase price paid by the Group, without taking into account of rebates received from suppliers, for all computer components sourced overseas by the Group on their behalf. The sales made under this arrangement to the ultimate holding company and fellow subsidiaries for the year ended 31 December 2006 amounted to approximately HK$749,000 (2005: HK$2,338,000) and HK$127,193,000 (2005: HK$106,164,000) respectively.

(b) On 29 August 2006, the Company entered into a master supply agreement and a master purchase agreement with Inspur Corporation that the Group will sell computer products to and purchase computer hardware and software products from the Inspur Group. The purchases made under this arrangement from fellow subsidiaries for the year ended 31 December 2006 amounted to approximately HK$22,333,000. The sales made under this arrangement to the ultimate holding company and fellow subsidiaries for the year ended 31 December 2006 amounted to approximately HK$140,435,000 and HK$6,277,000 respectively.

(c) On 29 August 2006, the Company entered into a master services agreement with Inspur Corporation that the Group will provide IT Services to the Inspur Group. The sales made under this agreement to a fellow subsidiary for the year ended 31 December 2006 amounted to approximately HK$1,143,000.

(d) On 29 August 2006, the Company entered into a selling agency agreement with Inspur Corporation that the Inspur Group will act as the contracting agent to enter into sales contracts, mainly the software products and the provision of information technology outsourcing service, with customers on behalf of the Group. In return, the Inspur Group will receive a commission of 1% of the total value of sales contracts. The commission made under this arrangement to a fellow subsidiary for the year ended 31 December 2006 amounted to approximately HK$12,000.

(e) During the year ended 31 December 2005, the Group paid commission amounting to approximately HK$916,000 to a company in which the ultimate holding company was one of the shareholders. The commission paid was for the referral of business to the Group.

(f) During the year ended 31 December 2005 and 2006, Inspur Electronic Information Industry Co., Ltd. (formerly known as Lang Chao Electronic Information Industry Co., Ltd.), a fellow subsidiary of the Company, allowed the Group to use the trademark "Lang Chao" in Hong Kong, Taiwan and the PRC free of charge.

(g) On 17 February 2006, the Group entered into the subscription agreements with Inspur Genersoft and Inspur E-Government to subscribe for 30.05% and 53.3% of the enlarged registered capital of Inspur Genersoft and Inspur E-Government at a consideration of RMB40,200,000 and RMB8,000,000 respectively. Shandong Langchao Cheeloosoft Company Limited, a subsidiary of Inspur Corporation, held a 69.6% equity interest in Inspur Genersoft and 100% equity interest in Inspur E-Government before the transactions. Further details regarding the subscriptions were disclosed in the Company's circular dated 8 March 2006.

Compensation of key management personnel

The remuneration of directors and key executive during the year are set out in notes 10 and 11, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the subsidiaries of the Company at 31 December 2006 are as follows:

Name of company	Form of business structure	Place of incorporation/ registration	Class of share held	Paid up issued ordinary share capital/ registered capital	Proportion of interest held by the Company		Proportion of voting power held by the Company	Principal activities
					Directly	Indirectly		
Inspur Electronics Limited	Incorporated	British Virgin Islands	Ordinary	US$1	100%	—	100%	Investment holding
Inspur (HK) Electronics Limited	Incorporated	Hong Kong	Ordinary	HK$1,000,000	—	100%	100%	Trading of computer components
浪潮(山東)電子信息有限公司*	Incorporated	PRC	Ordinary	US$29,675,000	—	100%	100%	Investment holding and trading of computer product
Timeone	Incorporated	British Virgin Islands	Ordinary	US$50,000	—	100%	100%	Investment holding
山東浪潮電子政務軟件有限公司**	Incorporated	PRC	Ordinary	RMB15,000,000	—	53.3%	53.3%	Manufacture, sale and development of computer software

* This entity is a wholly foreign owned enterprise

** This entity is a domestic limited liability company

None of the subsidiaries had issued any debt securitieis at the end of the year.

27. POST BALANCE SHEET EVENT

Pursuant to the resolution passed at the directors' meeting on 30 January 2007, a total of 51,430,000 share options were granted to certain employees of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$0.56 per share.

The grantees of share option were entitled to exercise a maximum of 20% of the share options within the first year commencing from the date of grant and the remaining 80% share options thereafter. The market price of the Company's shares at 30 January 2007 was HK$0.56.

(B) INDEBTEDNESS STATEMENT

As at 31 December 2007, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of HK$31,787,234, being unsecured, unguaranteed and non-trade related amount due to a fellow Subsidiary. In addition, the Enlarged Group had redeemable convertible preferred shares ("Preferred Shares") with an aggregate face value of HK$194,221,100, representing 132,909,342 and 101,315,217, 6% Preferred Shares at a par value of HK$0.76 and HK$0.92 each respectively issued by the Company.

Save as otherwise disclosed in this circular, the Enlarged Group did not, as at 31 December 2007, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

(C) WORKING CAPITAL STATEMENT

The Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the financial resources and banking facilities available to the Enlarged Group (including its internally generated funds), the Enlarged Group will have sufficient working capital to satisfy its present requirements and the requirements in the next 12 months.

(D) FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Manufacture and trading of computer products

In the nine months period of 2007, the Group kept expanding the export of computer products especially to south America. Custom-tailored computers have been produced to meet customers' specifications and requirements. With the continuous development in computer-related technologies and the established connection with customers, the Group has a good prospect to meet the growing demand for computer products.

Trading of computer components

In the nine months period of 2007, selling prices of computer components were reduced compared with last corresponding period owing to technological improvement. Competitions were keen. Gross profit from distribution of computer components has been reduced. Through quick response to market changes, the Group has maintained profitability in this segment.

Software and IT Services

During the nine months ended, making use of Microsoft's software development platform, the Group completed development of certain banking management software, wealth management software and the V1.0 Inspur Government Public Service System (a standardized software which can be further custom-tailored according to customers' circumstances and can also be developed into special edition for different customers).

Besides, the Group has expanded its market share in IT services for the banking sectors and the E-government sectors. The Group will continue to place emphasis on providing IT services, especially in the banking and financial sectors and the E-government project, and will enhance the ability of product actualization, providing IT solution, reducing development cost and speeding up the pace of business expansion.

The Group will also seek opportunity for acquisition of business to extend its software and IT services to different business sectors including the telecommunication sector. This can increase the Group's revenue from IT services. Also, it can remodel the Group's emphasis from trading of computer components and products to IT services provider, and to increase profitability.

The market for enterprise resources planning products as currently developed by the Target Group is expected to consolidate. There is a growing trend for the customers in general to demand for more sophisticated and tailored-made products for their own use. The Target Group is optimistic about the market for enterprise resources planning products and will devote more resources to further develop this market based on its own strength.

The following is the text of a report, prepared for the sole purposes of inclusion in this circular, received from the Company's auditors, Deloitte Touche Tohmatsu:

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29 February 2008

The Directors
Inspur International Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 浪潮集團山東通用軟件有限公司 (Inspur Group Shandong GenerSoft Incorporation) (the "Company"), and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 2007 (the "Relevant Periods") for inclusion in the circular of the Inspur International Limited dated 29 February 2008 (the "Circular") in connection with the proposed acquisition of additional 21.26% equity interest in the Company through the acquisition of the entire interests in Intersource Technology Limited.

The Company was incorporated on 25th May, 1994 in the People's Republic of China (the "PRC") with limited liability.

Particulars of the Company's subsidiaries are as follows:

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Group As at 31st December, 2005	2006	2007	Date of this report	Issued and fully paid share capital/ registered capital	Principal activities
上海浪潮通軟科技有限公司 Inspur Shanghai Genersoft Technology Incorporation	PRC 17th October, 2002	99.67%	99.67%	99.67%	99.67%	RMB30,000,000	Distribution of software and hardware
上海國强通用軟件有限公司 Shanghai Guoqiang Genersoft Incorporation	PRC 7th August, 1997	90%	90%	90%	90%	RMB500,000	Distribution of software and hardware
北京通軟科技有限公司 Inspur Beijing Genersoft Technology Incorporation	PRC 2nd August, 2004	99.75%	99.75%	99.75%	99.75%	RMB2,000,000	Distribution of software and hardware

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Group As at 31st December, 2005	2006	2007	Date of this report	Issued and fully paid share capital/ registered capital	Principal activities
北京浪潮通軟科技有限公司 Inspur Beijing Genersoft Technology Incorporation	PRC 13th February, 1998	95%	95%	95%	95%	RMB300,000	Distribution of software and hardware
青島浪潮通軟科技有限公司 Inspur Qiangdoa Genersoft Technology Incorporation	PRC 3rd September, 2003	95%	95%	95%	95%	RMB1,000,000	Distribution of software and hardware
南京浪潮通用軟件有限公司 Inspur Nanjing Genersoft Technology Incorporation	PRC 6th June, 2003	95%	95%	95%	95%	RMB2,000,000	Distribution of software and hardware
廣州浪潮通軟科技有限公司 Inspur Guangzhou Genersoft Technology Incorporation	PRC 14th August, 2003	90%	90%	90%	90%	RMB3,000,000	Distribution of software and hardware
廣州通用軟件科技有限公司 Guangzhou Genersoft Technology Incorporation	PRC 9th January, 2006	N/A	90%	90%	90%	RMB2,000,000	Distribution of software and hardware

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

All the companies within the Group adopted 31st December as financial year end date.

The statutory financial statements of the companies comprising the Group were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") and were audited by the following certified public accountants registered in the PRC.

Name of entity	Periods covered	Certified Public Accountants
浪潮集團山東通用軟件有限公司 Inspur Group Shandong Genersoft Incorporation	Each of the two years ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants
上海浪潮通軟科技有限公司 Inspur Shanghai Genersoft Technology Incorporation	For the year ended 31st December, 2005	上海滬中會計師事務所 Shanghai Wu Chung Certified Public Accountants
	For the year ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants
上海國强通用軟件有限公司 Shnghai Guoqiang Genersoft Incorporation	Each of the two years ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants
北京通軟科技有限公司 Inspur Beijing Genersoft Technology Incorporation	Each of the two years ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants
北京浪潮通軟科技有限公司 Inspur Beijing Genersoft Technology Incorporation	Each of the two years ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants
青島浪潮通軟科技有限公司 Inspur Qiangdoa Genersoft Technology Incorporation	Each of the two years ended 31st December, 2006	青島大地會計師事務所 Qiangdoa Da De Certified Public Accountants
南京浪潮通用軟件有限公司 Inspur Nanjing Genersoft Technology Incorporation	Each of the two years ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants
廣州浪潮通軟科技有限公司 Inspur Guangzhou Genersoft Technology Incorporation	For the year ended 31st December, 2005	廣州藍濤會計師事務所 Guangzhou Lam Tao Certified Public Accountants
	For the year ended 31st December, 2006	廣州市國策會計税務師事務所 Guangzhou Guece

Name of entity	Periods covered	Certified Public Accountants
廣州通用軟件科技有限公司 Guangzhou Genersoft Technology Incorporation	Each of the two years ended 31st December, 2006	大信會計師事務所 Da Xin Certified Public Accountants

The directors of the Company have prepared the management accounts of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have audited the Underlying Management Accounts in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Management Accounts in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Management Accounts. No adjustments were deemed necessary by us to the Underlying Management Accounts in preparing our report for inclusion in the Circular.

The directors of the Company are responsible for preparing the Underlying Management Accounts and also the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Management Accounts, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 2005, 2006 and 2007 and of the results and cash flows of the Group for the Relevant Periods.

(A) FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		For the year ended 31st December,		
	Notes	**2005**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	7	117,135	125,181	172,603
Cost of sales		(66,841)	(69,291)	(100,177)
Gross profit		50,294	55,890	72,426
Other income	8	7,753	15,519	16,209
Selling and distribution costs		(34,397)	(45,532)	(45,270)
Administrative expenses		(15,248)	(20,424)	(23,998)
Finance costs	9	(446)	(193)	—
Profit before taxation		7,956	5,260	19,367
Taxation	11	(209)	—	(1,026)
Profit for the year	12	7,747	5,260	18,341
Attributable to:				
Equity holders of the Company		7,776	5,446	18,368
Minority interests		(29)	(186)	(27)
		7,747	5,260	18,341

CONSOLIDATED BALANCE SHEETS

		As at 31st December,		
	Notes	**2005**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*
Non-current asset				
Property, plant and equipment	15	34,897	46,219	45,445
Current assets				
Inventories	16	675	383	665
Amounts due from customers for contract work	17	13,606	21,307	27,297
Trade and bills receivables	18	30,600	27,195	21,846
Other receivables, deposits and prepayments	18	10,550	5,044	5,058
Amounts due from related companies	19	41	1,438	301
Tax recoverable		422	2,443	1,611
Bank balances and cash	20	17,180	37,653	69,588
		73,074	95,463	126,366
Current liabilities				
Amounts due to customers for contract work	17	1,015	5,059	4,172
Trade payables	21	2,519	1,980	3,566
Other payables, deposits received and accruals		17,856	16,502	26,256
Amounts due to related companies	19	4,100	—	565
Borrowings	22	8,000	—	—
		33,490	23,541	34,559
Net current assets		39,584	71,922	91,807
Total assets less current liabilities		74,481	118,141	137,252
Non-current liability				
Deferred income - government grant	23	3,880	1,880	2,650
Net assets		70,601	116,261	134,602
Equity				
Paid up capital	24	27,932	39,932	39,932
Reserves		42,225	75,871	94,239
Equity attributable to equity holders of the Company		70,157	115,803	134,171
Minority interests		444	458	431
Total equity		70,601	116,261	134,602

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Paid in capital	Capital reserve	Statutory reserve	Retained profits (loss)	Total	Minority interests	Total
	RMB'000	*RMB'000* *(note 1)*	*RMB'000* *(note 2)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2005	27,932	13,756	17,940	2,753	62,381	473	62,854
Profit for the year and total recognised income for the year	—	—	—	7,776	7,776	(29)	7,747
Transfer	—	—	1,671	(1,671)	—	—	—
At 31st December, 2005	27,932	13,756	19,611	8,858	70,157	444	70,601
Profit for the year and total recognised income for the year	—	—	—	5,446	5,446	(186)	5,260
Capital contributions from the shareholder of the Company	12,000	28,200	—	—	40,200	—	40,200
Capital injection from a minority shareholder upon formation of a subsidiary	—	—	—	—	—	200	200
Transfer	—	—	1,124	(1,124)	—	—	—
At 31st December, 2006	39,932	41,956	20,735	13,180	115,803	458	116,261
Profit for the year and total recognised income for the year	—	—	—	18,368	18,368	(27)	18,341
At 31st December, 2007	39,932	41,956	20,735	31,548	134,171	431	134,602

Note 1: The capital reserve represented the capital injection made by shareholders in excess of the amount of paid in capital.

Note 2: Pursuant to the PRC Company Law, the subsidiaries of the Company incorporated in the PRC shall make an allocation to the statutory public welfare fund and enterprise development fund from their profit after taxation (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The enterprise development fund can be used for making goods losses and capitalisation into paid-in-capital. Both the statutory public welfare fund and the enterprise development fund from part of the shareholders' equity but are non-distributable other than in liquidation. Such appropriations are made on an annual basis at the end of each financial year.

CONSOLIDATED CASH FLOW STATEMENTS

	For the year ended 31st December, 2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before taxation	7,956	5,260	19,367
Adjustments for:			
Bank interest income	(170)	(389)	(527)
Interest expense	446	193	—
Allowance for bad and doubtful debts	655	861	2,522
Allowance for other receivables	34	84	375
Depreciation of property, plant and equipment	9,748	12,461	16,226
(Gain) loss on disposal of property, plant and equipment	(236)	13	(99)
Operating cash flows before movements in working capital	18,433	18,483	37,864
Decrease (increase) in inventories	300	292	(282)
(Increase) decrease in trade and bills receivables	(12,697)	2,544	2,827
(Increase) decrease in other receivables, deposits and prepayments	(3,709)	5,422	(389)
Decrease (increase) in amounts due from customers for contract works	4,306	(7,701)	(5,990)
(Increase) decrease in amounts due from fellow subsidiaries	—	(1,258)	957
(Increase) decrease in amount due from a shareholder	—	(84)	84
(Increase) decrease in amounts due from immediate holding company	(41)	41	—
Increase (decrease) in trade payables	2,095	(539)	1,586
Increase (decrease) in other payables, deposits received and accruals	3,638	(1,354)	9,754
(Increase) decrease in amount due from ultimate holding company	—	(96)	96
(Decrease) increase in amounts due to fellow subsidiaries	(1,837)	(2,146)	—
Increase in amount due to a shareholder	—	—	113
(Decrease) increase in deferred income - government grant	—	(2,000)	770
Increase (decrease) in amount due to customers for contract work	1,015	4,044	(887)
Cash generated from operations	11,503	15,648	46,503
PRC Enterprise Income Tax paid	(795)	(2,021)	(194)
NET CASH FROM OPERATING ACTIVITIES	10,708	13,627	46,309

	For the year ended 31st December,		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(18,134)	(25,366)	(16,632)
Proceeds from disposal of property, plant and equipment	2,392	1,570	1,279
Bank interest received	170	389	527
NET CASH USED IN INVESTING ACTIVITIES	(15,572)	(23,407)	(14,826)
FINANCING ACTIVITIES			
Advance from ultimate holding company	—	116	244
Repayment to ultimate holding company	(1,409)	(1,645)	(96)
Advances from fellow subsidiaries	—	—	356
Repayments to fellow subsidiaries	—	(425)	(52)
Interest paid	(446)	(193)	—
Repayment of borrowings	—	(8,000)	—
Capital contributions from the shareholder of the Company	—	40,200	—
Capital injection from a minority shareholder upon formation of a subsidiary	—	200	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(1,855)	30,253	452
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,719)	20,473	31,935
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	23,899	17,180	37,653
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17,180	37,653	69,588
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	17,180	37,653	69,588

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated and registered in the PRC with limited liability on 25th May, 1994. The address of the Company's registered office and the principal place of business is 224, Shan Da Lu, Tsinan. The ultimate holding company is Inspur Incorporation, an entity also incorporated in the PRC.

The Group's principal operations are conducted in the PRC. The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Company and all of its subsidiaries.

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

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFR(s)"), amendments and Interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for the financial year of the Group beginning on or prior to 1st January 2007. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all these New HKFRSs consistently throughout the Relevant Periods.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) - Int 11	HKFRS 2: Group and treasury share transactions[2]
HK(IFRIC) - Int 12	Service concession arranagements[3]
HK(IFRIC) - Int 13	Customer loyalty programmes[4]
HK(IFRIC) - Int 14	HKAS 19 - The limit on a defined benefit asset,minimum funding requirements and their interaction[3]

[1] Effective for annual periods beginning on or after 1st January, 2009.

[2] Effective for annual periods beginning on or after 1st March, 2007.

[3] Effective for annual periods beginning on or after 1st January, 2008.

[4] Effective for annual periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (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.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of computer hardware and software are recognised when the goods are delivered and title has been passed.

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 held for use in the production or supply of goods or for administrative purpose are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account their estimated residential 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.

Borrowing costs

All borrowing costs are recognised in consolidated income statement in the year in which they are incurred.

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 leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Government grants

Government grants are recognised as income when the related development project has been completed and the approval of the relevant government authority has been obtained.

Retirement benefits costs

Payments to state-managed retirement benefits schemes are charged as an expense when employees have rendered services entitling them to the contributions.

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 or expense that are taxable or deductible in other years and it further excludes items that are never taxable or 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 amount of assets and liabilities in the Financial Information and the corresponding tax bases 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 profits 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Software development contracts

Where the outcome of a software development contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

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

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

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

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

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 are mainly classified into loans and receivables. The accounting policies adopted in respect of loans and receivables and available-for-sale financial assets are set out below.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Loan 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, receivables (including amounts due from customers for contract works, trade and bills receivables, other receivables and deposits, amounts due from related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below)

Impairment of financial assets — loan and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted. Objective evidence of impairment could include:

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

For certain financial assets, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

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.

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

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

Financial liabilities and equity

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Income expense is recognised on an effective interest basis of which interest expense is included in net gains or losses.

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to related companies and borrowings are subsequently measured at amortised cost, 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 or payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet dates, monetary items denominated in foreign currencies are retranslated 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 re-translated.

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.

Impairment losses on assets

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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at respectively 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.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2005, 2006 and 2007, the carrying amount of trade and bill receivable is RMB30,600,000, RMB27,195,000 and RMB21,846,000 (net of allowance for doubtful debts of RMB1,648,000, RMB2,509,000 and RMB5,031,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the Company, comprising paid up capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and capital injection as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)	67,687	91,695	122,539
Financial liabilities			
Amortised cost	19,859	8,156	10,104

Financial risk management objectives and policies

The Group's major financial instruments include amounts due from customers for contract work, trade and bills receivables, other receivables and deposits, amounts due from/to related companies, bank balances and cash, trade payables, other payables and borrowings. Detail of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

The Group's overall financial risk management objectives and policies remain unchanged over the Relevant Periods.

Market risks

Interest rate risk

The Group was exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 22 for details of these borrowings).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Currency risk

The Group collects most of the revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB.

The director considered that the Group's exposure to foreign currency exchange risk is insignificant as all of the Group's transactions are denominated in the functional currency of each individual group entity.

The directors consider that the sensitivity of the Group's exposure towards the change in foreign exchange rates is minimal as none of the assets and liabilities of the Group denominated in currency other than functional currency of a particular group entity as at each of the balance sheet dates.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents (i.e. bank balances and cash) deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 3 months	3 months to 6 months	6 months to 1 year	Total undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31st December, 2005						
Trade payables	—	2,519	—	—	2,519	2,519
Other payables	—	367	2,620	2,253	5,240	5,240
Amounts due to fellow subsidiaries	—	180	1,285	1,106	2,571	2,571
Amount due to ultimate holding company	—	107	765	657	1,529	1,529
Fixed interest rates borrowings	5.58%	—	8,193	—	8,193	8,000
		3,173	12,863	4,016	20,052	19,859
As at 31st December, 2006						
Trade payables	—	1,980	—	—	1,980	1,980
Other payables	—	432	3,088	2,656	6,176	6,176
		2,412	3,088	2,656	8,156	8,156
As at 31st December, 2007						
Trade payables	—	3,566	—	—	3,566	3,566
Other payables	—	418	2,987	2,568	5,973	5,973
Amounts due to fellow subsidiaries	—	21	152	131	304	304
Amount due to ultimate holding company	—	10	74	64	148	148
Amount due to a shareholder	—	8	56	49	113	113
		4,023	3,269	2,812	10,104	10,104

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial 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 debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the aggregate of the net amounts received and receivable from third parties in connection with software development and sales of computer hardware and software.

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Sales of computer hardware and software	77,771	91,890	96,347
Software development	39,364	33,291	76,256
	117,135	125,181	172,603

The Group's turnover is substantially derived from a single segment of development and distribution of enterprise resources planning products, with the incidental sales of computer hardware and software, carried out in the PRC and with geographical market and identifiable assets principally located in the PRC. Accordingly, no analysis by business and geographical segments is presented.

8. OTHER INCOME

	For the year ended 31st December,		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Value added tax refund	6,800	11,939	13,653
Gain on disposal of property, plant and equipment	236	—	99
Bank interest income	170	389	527
Government grants *(Note)*	547	3,191	1,930
	7,753	15,519	16,209

Note: The Company receives the grants from the Government for funding of some development projects which benefits the society as a whole. The grants received are recognised as income when the related development project has been completed and the approval of the relevant Government authority has been obtained.

9. FINANCE COSTS

	For the year ended 31st December,		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Interests on borrowings wholly repayable within five years	446	193	—

10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	For the year ended 31st December,		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Directors' emoluments			
Fee	—	—	—
Salaries and other benefits	144	144	144
Retirement benefit scheme contributions	13	15	18
	157	159	162

The emoluments of the Company's directors during the Relevant Periods are analysed as follows:

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Name of directors:			
Executive directors:			
Wang xinshan	157	159	162
Wang miao	—	—	—
Liu qinli	—	—	—
Wang baihua	—	—	—
Zhang lei	—	—	—
	157	159	162

Of the five individuals with the highest emoluments in the Group for the Relevant Periods, one was director of the Group whose emoluments are included in the disclosure set out above. The emoluments of the remaining four individuals were as follows:

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	487	457	487
Retirement benefit scheme contributions	42	46	57
	529	503	544

The emolument of each individual during the Relevant Periods was within the emoluments band of less than HK$1,000,000.

During the Relevant Periods, no emolument was paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

11. TAXATION

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
- PRC Enterprise Income Tax	209	—	1,026

The Company is entitled to apply a tax rate of 15% starting from the fiscal year ended 31st December, 2005 because they are recognised as "New and High Technology Enterprise" in 2005. Furthermore, the Group can enjoy additional 5% reduction in tax rate starting from the fiscal year ended 31st December, 2005 because it is recognised as "Stated recognised software enterprise" ("國家規則局內的重點軟件企業") in 2005.

The subsidiaries are subject to PRC Enterprise Income Tax at 33% of the estimated assessable profit for the Relevant Periods.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the statutory tax rate to 25% effective from 1st January, 2008.

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

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	7,956	5,260	19,367
PRC Enterprises Income Tax rate of 33%	2,625	1,736	6,391
Tax effect of income not taxable for tax purposes	(680)	(1,194)	(1,366)
Tax effect of expenses not deductible for tax purposes	94	295	455
Tax effect of tax losses not recognised	—	373	—
Income tax on concessionary rate	(1,830)	(1,210)	(4,454)
Taxation for the year	209	—	1,026

There was no significant unprovided deferred taxation for the Relevant Periods or at each of the balance sheet dates.

12. PROFIT FOR THE YEAR

Profit for the year is arrived after charging:

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Auditor's remuneration	—	—	—
Allowance for bad and doubtful debts	655	861	2,522
Allowance for other receivables	34	84	375
Cost of inventories recognized	45,661	51,870	66,869
Depreciation of property , plant and equipment	9,748	12,461	16,226
Loss on disposals of property, plant and equipment	—	13	—
Research and development cost	755	2,004	1,854
Operating lease rentals in respect of rented premises	1,123	1,356	2,694
Staff costs (including directors' emolument):			
Salaries, bonus and other allowances	36,115	41,835	44,370
Retirement benefits scheme contributions	3,037	4,014	3,403
	39,152	45,849	47,773

Auditor's remuneration was borne by its shareholder/immediate holding company. Details are set out in note 27.

13. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods.

14. EARNINGS PER SHARE

Earnings per share is not presented herein as the directors of the Company do not consider such information to be meaningful in the context of the Financial Information.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery and equipment	Specialised equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1st January, 2005	2,505	3,043	16,764	19,968	1,747	44,027
Additions	—	654	2,317	14,731	432	18,134
Disposals	(2,103)	—	(802)	(2)	(595)	(3,502)
At 31st December, 2005	402	3,697	18,279	34,697	1,584	58,659
Additions	—	73	1,870	23,423	—	25,366
Disposals	—	—	(6,602)	(240)	(201)	(7,043)
At 31st December, 2006	402	3,770	13,547	57,880	1,383	76,982
Additions	—	—	6,217	10,220	195	16,632
Disposals	—	(2,284)	(3,356)	(507)	—	(6,147)
At 31st December, 2007	402	1,486	16,408	67,593	1,578	87,467
DEPRECIATION						
At 1st January, 2005	190	768	7,460	6,120	822	15,360
Provided for the year	83	916	2,958	5,566	225	9,748
Eliminated on disposals	(224)	—	(622)	(2)	(498)	(1,346)
At 31st December, 2005	49	1,684	9,796	11,684	549	23,764
Provided for the year	25	972	2,655	8,582	227	12,461
Eliminated on disposals	—	—	(5,066)	(214)	(180)	(5,460)
At 31st December, 2006	74	2,656	7,385	20,052	596	30,763
Provided for the year	25	514	1,996	13,277	414	16,226
Eliminated on disposals	—	(2,284)	(2,229)	(454)	—	(4,967)
At 31st December, 2007	99	886	7,152	32,875	1,010	42,022
CARRYING VALUES						
At 31st December, 2005	353	2,013	8,483	23,013	1,035	34,897
At 31st December, 2006	328	1,114	6,162	37,828	787	46,219
At 31st December, 2007	303	600	9,256	34,718	568	45,445

The above items of property, plant and equipment are depreciated, after taking into account of their estimated residual value, on a straight line basis over the following periods:

Buildings	Over the shorter of 15 years or terms of leases
Leasehold improvements	Over the shorter of 4 years or terms of leases
Machinery and equipment	5 - 8 years
Specialised equipment	4 - 5 years
Motor vehicles	5 years

16. INVENTORIES

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Consumable parts	675	383	665

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

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Contracts in progress at the balance sheet date			
Contract costs incurred plus recognised profits less recognised losses	77,445	110,736	186,992
Less: Progress billings	(64,854)	(94,488)	(163,867)
	12,591	16,248	23,125
Analysed for reporting purpose as:			
Due from customers included in current assets	13,606	21,307	27,297
Due to customers included in current liabilities	(1,015)	(5,059)	(4,172)
	12,591	16,248	23,125

At 31st December, 2005, 2006 and 2007, there were RMB6,489,000, RMB7,330,000 and RMB13,908,000 advances received from customers for contract work performed which was included in other payables, deposits received and accruals.

18. TRADE AND BILLS RECEIVABLES

Trade and bills receivables

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivable	32,248	29,704	26,877
Less: Allowance for bad and doubtful debts	(1,648)	(2,509)	(5,031)
	30,600	27,195	21,846

The Group allows an average credit period of 30 to 90 days to its customers. The aged analysis of trade receivables are stated as follows:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	13,662	17,634	18,442
31 to 90 days	12,272	7,049	1,693
91 to 180 days	2,956	1,829	1,711
181 to 365 days	1,710	683	—
	30,600	27,195	21,846

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 80% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB4,666,000, RMB2,512,000 and RMB1,711,000 as at 31st December, 2005, 2006 and 2007 respectively, which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 100 days, 120 days and 110 days in the year of 2005, 2006 and 2007 respectively.

Ageing of trade receivables which are past due but not impaired

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
91 to 180 days	2,956	1,829	1,711
181 to 365 days	1,710	683	—
Total	4,666	2,512	1,711

Movement in the allowance for bad and doubtful debts

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Balance at beginning of year	993	1,648	2,509
Impairment losses recognised on receivables	655	861	2,522
Balance at the end of year	1,648	2,509	5,031

Other receivables

Other receivables are unsecured, interest free and recoverable within one year.

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	6,600	4,508	4,346
Less Allowance for other receivables	(380)	(464)	(839)
	6,220	4,044	3,507

Movement in the allowance for bad and doubtful debts

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Balance at beginning of year	346	380	464
Impairment losses recognised on other receivables	34	84	375
Balance at the end of year	380	464	839

In determined the recoverability of a trade and other receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the report date. The Group considers the trade and other receivables are determined to be impaired if they are aged for more than 365 days based on the Group's historical experience. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

19. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from related companies:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trading in nature			
Ultimate holding company	—	96	—
Fellow subsidiaries	—	1,258	301
Immediate holding company	41	—	—
A shareholder of the Company	—	84	—
Total amount due from related companies	41	1,438	301

The Group allows an average credit period of 30 to 90 days to related companies.

The aged analysis of the amounts due from related companies which is trading in nature is stated as follows:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	—	1,438	—
31 to 90 days	41	—	301
	41	1,438	301

The amounts due from related companies have not been past due at the reporting date and the Group has not provided for impairment loss. In determined the recoverability of amounts due from related companies, the Group considers any change in the credit quality of the amounts from related companies from the date credit was initially granted up to the report date.

Amounts due to related companies:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trading in nature			
Fellow subsidiaries	2,146	—	—
A shareholder of the Company	—	—	113
Total trading in nature	2,146	—	113
Non-trading in nature			
Ultimate holding company	1,529	—	148
Fellow subsidiaries	425	—	304
Total non-trading in nature	1,954	—	452
Total amounts due to related companies	4,100	—	565

The aged analysis of the amounts due to related companies which are trading in nature is stated as follows:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	2,146	—	—
31 to 90 days	—	—	113
	2,146	—	113

The amounts due from/to related companies which are non-trading in nature are unsecured and interest-free and repayable on demand.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash on hand, balances in saving and current accounts, and short-term bank deposits with original maturity less than 3 months. Bank balances in saving account and bank deposits carried interest at market rates which range from 0.7% to 4.1% per annum for the Relevant Periods.

21. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	1,809	1,121	2,888
31 to 90 days	178	320	347
91 to 180 days	460	37	204
Over 180 days	72	502	127
	2,519	1,980	3,566

The average credit period on purchase of goods is 30 days.

22. BORROWINGS

The borrowings at 31st December, 2005 represented unsecured, fixed-rate bank borrowings due within one year. The bank loans carried interest at 5.58% per annum. The unsecured bank loans were under corporate guarantee provided by fellow subsidiaries.

23. DEFERRED INCOME — GOVERNMENT GRANT

The Company receives the grant from the Government for funding of some development projects which benefits the society as a whole. When the project is completed, the relevant Government department will evaluate the quality of the results. The grants received are recognised as income when the related development project has been completed and the approval of the relevant Government authority has been obtained.

24. PAID UP CAPITAL

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Registered share capital			
At beginning of year	27,932	27,932	39,932
Capital contribution	—	12,000	—
At end of year	27,932	39,932	39,932

On 26th March 2006, the registered capital of the company was increased by RMB12,000,000.

25. OPERATING LEASE COMMITMENTS

At each balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Operating leases which expire:			
Within one year	1,079	1,394	1,465
In the second to fifth year inclusive	565	30	510
	1,644	1,424	1,975

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

26. RETIREMENT BENEFITS SCHEME

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in a state-managed retirement benefits scheme operated by the local government. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

During the Relevant Periods, the total amounts contributed by the Group to the schemes and cost charged to the consolidated income statement represents contribution paid or payable to the schemes by the Group at rates specified in the rules of the scheme.

27. RELATED PARTY TRANSACTIONS

Details of the amounts due from/to related companies and guarantee provided by related parties are disclosed in notes 19 and 22 respectively.

During the Relevant Periods, the Group entered into the following transactions with related parties:

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Purchases of goods			
Ultimate holding company	—	—	1,674
Fellow subsidiaries	101	4,549	14,977
A shareholder of the Company	—	—	179
Sales of goods			
Ultimate holding company	3	1,408	7,876
Immediate holding company	397	—	—
Fellow subsidiaries	7,231	6,504	973
A shareholder of the Company	—	896	1,596
Purchases of equipment			
Fellow subsidiaries	—	15,325	15,361
A shareholder of the Company	—	400	—
Sales of equipment			
Fellow subsidiaries	163	1,077	282
Rental expenses			
Ultimate holding company	1,050	1,273	1,599

Auditor's remuneration of RMB64,000, RMB67,000 and RMB67,000 for the year ended 31st December, 2005, 2006 and 2007 respectively was borne by its shareholder/immediate holding company.

Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods were as follows:

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Short-term benefits	144	144	144
Post-employment benefits	13	15	18
	157	159	162

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 31st December, 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29th February, 2008

The Directors
Inspur International Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Intersource Technology Limited (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") for the period from 28th April, 2005 (date of incorporation) to 31st December, 2005 and each of the two years ended 31st December, 2007 (the "Relevant Periods") for inclusion in the circular of Inspur International Limited ("Inspur") dated 29th February, 2008 (the "Circular") in connection with the proposed acquisition of additional 21.26% equity interest in 浪潮集團山東通用軟件有限公司 (Inspur Group Shandong GenerSoft Incorporation) through the acquisition of the entire interest in the Company.

On 18th December, 2007, Inspur entered into an acquisition agreement to which Inspur has agreed to purchase the entire issued share capital of the Company which indirectly owns 21.26% equity interests in Inspur Group ShanDong Genersoft Software Incorporation ("LC Genersoft").

The Company was incorporated and registered in the British Virgin Islands with limited liability on 28th April, 2005.

Particulars of the Company's subsidiary is as follows:

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Group As at 31st December, 2005	2006	2007	Date of this report	Paid up capital/ registered capital	Principal activity
濟南啟益信息科技有限公司 Jinan Qiyi Information Technology Limited#* ("Jinan Qiyi")	The People's Republic of China (the "PRC") 3rd June, 2003	100%	100%	100%	100%	RMB5,000,000	Investment holding

\# Wholly owned foreign enterprise registered in the PRC.

* The English names of this PRC Incorporated entity is for identification purpose.

All the companies comprising the Group have adopted 31st December as their financial year end date.

No audited financial statements have been prepared for the Company since its date of incorporation as the Company is incorporated in a country where there is no such statutory requirement.

The statutory financial statements of Jinan Qiyi was prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC.

Periods covered	**Certified Public Accountants**
Each of the two years ended 31st December, 2006	山東新求是有限責任會計師事務所 Shandong Sun Ji Xi Certified Public Accountants

For the purpose of this report, the directors of the Company have prepared the consolidated management accounts of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have audited the Underlying Management Accounts in accordance with the Hong Kong Standards on Auditing issued by HKICPA. We have examined the Underlying Management Accounts in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Management Accounts. No adjustments were deemed necessary by us to the Underlying Management Accounts in preparing our report for inclusion in the Circular.

The directors of the Company are responsible for preparing the Underlying Management Accounts and also the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 2005, 2006 and 2007, and of the results and cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Period from 28th April, 2005 (date of incorporation) to 31st December, 2005	Year ended 31st December, 2006	Year ended 31st December, 2007
		RMB'000	*RMB'000*	*RMB'000*
Share of profit of an associate		1,368	1,237	3,899
Other income		10	—	—
Discount on acquisition of an associate through acquisition of a subsidiary	18	14,996	—	—
Gain on deemed disposal of interest in an associate	7	—	2,074	—
Administrative expenses		(126)	(2)	(1)
Profit before taxation		16,248	3,309	3,898
Taxation	9	—	—	—
Profit for the period/year	10	16,248	3,309	3,898

CONSOLIDATED BALANCE SHEETS

		At 31st December,		
	Notes	**2005**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*
Non-current asset				
Interest in an associate	13	21,364	24,675	28,574
Current assets				
Other receivables	14	2,512	—	—
Bank balances	15	2,487	27	26
		4,999	27	26
Current liabilities				
Other payables	16	5,000	30	30
Net current liabilities		(1)	(3)	(4)
		21,363	24,672	28,570
Capital and reserves				
Share capital	17	414	414	414
Reserves		20,949	24,258	28,156
		21,363	24,672	28,570

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 28th April, 2005 (date of incorporation)	414	4,701	—	5,115
Profit for the period and total recognised income for the period	—	—	16,248	16,248
At 31st December, 2005	414	4,701	16,248	21,363
Profit for the year and total recognised income for the year	—	—	3,309	3,309
At 31st December, 2006	414	4,701	19,557	24,672
Profit for the year and total recognised income for the year	—	—	3,898	3,898
At 31st December, 2007	414	4,701	23,455	28,570

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Period from 28th April, 2005 (date of incorporation) to 31st December, 2005	Year ended 31st December, 2006	2007
		RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES				
Profit before taxation		16,248	3,309	3,898
Adjustments for:				
Interest income		(10)	—	—
Share of profit of an associate		(1,368)	(1,237)	(3,899)
Discount on acquisition of an associate through acquisition of a subsidiary	18	(14,996)	—	—
Gain on deemed disposal of interest in an associate		—	(2,074)	—
Net cash used in operating activities		(126)	(2)	(1)
INVESTING ACTIVITIES				
Settlement of other receivables		488	2,512	—
Settlement of other payables		—	(4,970)	—
Interest received		10	—	—
Acquisition of a subsidiary	18	(3,000)	—	—
NET CASH USED IN INVESTING ACTIVITIES		(2,502)	(2,458)	—
CASH FROM FINANCING ACTIVITY				
Proceeds from issue of shares		5,115	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,487	(2,460)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		—	2,487	27
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, REPRESENTED BY BANK BALANCES AND CASH		2,487	27	26

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated and registered in the British Virgin Islands with limited liability on 28th April, 2005. Its ultimate holding company is Total Charm investments Limited, also incorporated in the British Virgin Islands. The registered address of the Company is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Company and its subsidiary.

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

The HKICPA issued a number of new and revised Hong Kong Accounting standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and Interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for the financial year of the Group beginning on or prior to 1st January, 2007. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all these New HKFRSs throughout the Relevant Periods.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) - Int 11	HKFRS 2: Group and treasury share transactions[2]
HK(IFRIC) - Int 12	Service concession arranagements[3]
HK(IFRIC) - Int 13	Customer loyalty programmes[4]
HK(IFRIC) - Int 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

1 Effective for annual periods beginning on or after 1st January, 2009.

2 Effective for annual periods beginning on or after 1st March, 2007.

3 Effective for annual periods beginning on or after 1st January, 2008.

4 Effective for annual periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (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.

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

Interests in an associate

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 the net assets of the associates, 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 Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At 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 re-translated.

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

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

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 profits 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 taxable profit nor the accounting profit.

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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the combined 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.

Impairment

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.

In respect of the interest in an associate, after application of the equity method, the Group reviews at each balance sheet date, the interest in an associate to determine whether there is any objective evidence that the investment is impaired, that is measured as the difference between the entire carrying amount of the investment and its recoverable amount. If the recoverable amount of investment is estimated to be less than its carrying amount, the carrying amount of the investment 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.

Financial instruments

Financial assets and financial liabilities are recognised on the 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 are classified as loans and receivables.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets-loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted. Objective evidence of impairment could include:

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

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.

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

Financial liabilities and equity

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 financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities

Financial liabilities including other payables are subsequently measured at amortised cost, 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.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital and retained profits.

The management of the Group review the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through new share issues and the issue of new debt.

The Group's overall strategy remains unchanged during the Relevant Periods.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include other receivables, bank balances and other payables. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the polices on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Currency risk

The Group incurred most of the expenditures as well as capital expenditures in RMB. The directors consider that the Group's foreign currency exchange risk is insignificant as the majority of the Company's transactions are denominated in the functional currency of the Company.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank balances due to the fluctuation of the prevailing market interest rate on bank balances.

The Group has not used any derivative contracts to hedge its exposure to interest rate risk, however, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. As interest rate risk relates primarily to financial assets and liabilities with short maturities, the management consider that the sensitivity of the Group's exposure towards the change in interest rate is insignificant as the Group's financial assets and liabilities are minimal as at each of the balance sheet dates.

Credit risk

The Group's credit risk are primarily attributable to other receivables and bank balances. The other receivables as at 31st December, 2005 has been fully settled for the year 31st December, 2006. The Group's bank balances and cash are deposited with banks in the PRC and the Group has limited the exposure to any single financial institution. The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating.

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.

The Group's financial liability solely includes other payables which was interest-free. The remaining contractual maturity for the financial liability based on the undiscounted cash flows of financial liability based on the earliest date on which the Group can be required to pay, was 0-30 days.

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the balance sheet date.

6. SEGMENT INFORMATION

The Group is principally engaged in investment holding in the PRC. Accordingly, no analysis by business and geographical segments is presented.

7. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

On 26th March, 2006, an addition paid up capital in the associate was made from a new shareholder which diluted the Group's shareholding in the associate from 30.26% to 21.26%. The dilution resulted in gain on deemed disposal of RMB2,074,000 for the year ended 31st December, 2006.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

No director's and employees' emoluments were paid by payable by the Group during the Relevant Periods.

9. TAXATION

No provision for taxation of the Company and subsidiary established in The People's Republic of China ("PRC") as that subsidiary do not have assessable profit for the Relevant Periods.

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

	Period from 28th April, 2005 (date of incorporation) to 31st December,	Year ended 31st December,	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	16,248	3,309	3,898
Tax at the PRC Enterprises Tax rate of 33%	5,362	1,092	1,286
Tax effect of share of profit of an associate	(451)	(408)	(1,286)
Tax effect of expense not deductible for tax purpose	41	—	—
Tax effect of income not taxable for tax purpose	(4,952)	(684)	—
Taxation for the period/year	—	—	—

10. PROFIT FOR THE PERIOD/YEAR

	Period from 28th April, 2005 (date of incorporation) to 31st December, 2005	Year ended 31st December, 2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Profit for the period/year has been arrived at after charging (crediting):			
Auditor's remuneration	1	1	1
Directors' remuneration	—	—	—
Other staff costs	—	—	—
Bank interest income	(10)	—	—

11. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods.

12. EARNINGS PER SHARE

Earnings per share is not presented herein as the director of the Company does not consider such information to be meaningful in the context of the Financial Information.

13. INTEREST IN AN ASSOCIATE

	At 31st December, 2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Cost of investment in an associate, unlisted	19,996	19,996	19,996
Share of post-acquisition profit	1,368	4,679	8,578
	21,364	24,675	28,574

At 31st December, 2005, 2006 and 2007, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation	Class of share held	Proportion of nominal value of paid up capital held by the Group % 2005	2006	2007	Nature of business
LC GenerSoft	Incorporated	PRC	Ordinary	30.26	21.26	21.26	Software development and distribution of software and hardware

The summarised financial information in respect of the Group's associate is set out below:

	At 31st December, 2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Total assets	107,971	141,682	171,811
Total liabilities	(37,370)	(25,421)	(37,209)
Net assets	70,601	116,261	134,602
Group's share of net assets of associates	21,364	24,675	28,574

	Period from 28th April, 2005 (date of incorporation) to 31st December, 2005	Year ended 31st December, 2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Revenue	117,135	125,181	172,603
Profit for the year	7,747	5,260	18,341
Group's share of result for the period/year	1,368	1,237	3,899

14. OTHER RECEIVABLES

Other receivables were unsecured, interest free and fully settled during 2006.

15. BANK BALANCES

Bank balances are short term highly liquid funds carrying interest at market interest rates which range from 0.7% to 4.1% per annum for the Relevant Periods and are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

16. OTHER PAYABLES

Other payables principally comprise the consideration payable for the acquisition of an associate by a subsidiary.

17. SHARE CAPITAL

The Company was incorporated with an authorised share capital of US$50,000 divided into 50,000 shares with a nominal value of US$1 each. 50,000 shares of US$1 each of the Company were issued and allotted at US$12.36 each to Total Charm Investments Limited since the date of its incorporation to provide the initial capital for the Company.

18. ACQUISITION OF AN ASSOCIATE THROUGH ACQUISITION OF A SUBSIDIARY

On 15th June, 2005, the Company acquired 100% of the paid-up capital of Jinan Qiyi for a consideration of RMB5,000,000. The principal activity of Jinan Qiyi was investment holding.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination and fair value
	RMB'000
Net assets acquired:	
Interest in an associate	19,996
Other receivables	3,000
Bank balances and cash	2,000
Other payables and accruals	(5,000)
	19,996
Discount on acquisition of an associate through acquisition of a subsidiary	(14,996)
	5,000
Total consideration satisfied by:	
Cash	5,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(5,000)
Bank balances and cash acquired	2,000
	(3,000)

The consideration was determined by reference to the nominal amount of paid in capital of Jinan Qiyi held by the then shareholders. Accordingly, a discount on acquisition of approximately RMB14,996,000 was resulted.

19. BALANCE SHEETS OF THE COMPANY

	At 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Non-current asset			
Interest in a subsidiary	5,000	5,000	5,000
Capital and reserves			
Share capital	414	414	414
Reserves	4,586	4,586	4,586
	5,000	5,000	5,000

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the companies comprising the Group have been prepared in respect of any period subsequent to 31st December, 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of the accountants' report received from the Company's reporting accountants, Deloitte Touche Tohmatsu for inclusion in this circular:

TO THE DIRECTORS OF INSPUR INTERNATIONAL LIMITED

We report on the unaudited pro forma financial information of Inspur International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of Inspur Group Shandong Genersoft Incorporation might have affected the financial information presented, for inclusion in Section A in Appendix III to the circular dated 29 February 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 114 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2007 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 February 2008

A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2007 extracted from the published interim report of the Group as at 30 June 2007 and the audited balance sheets of lntersource and LC Genersoft as at 31 December 2007 as extracted from the accountants' reports as set out in Appendix II to this circular (translated into HK$ at an exchange rate of RMB1:HK1.067) as if the Acquisition had been completed on 30 June 2007.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position or results of operations.

	The Group	Intersource	LC GenerSoft	Pro forma adjustments		Unaudited pro forma consolidated balance sheet of Enlarged Group
	30 June 2007	31 December 2007	31 December 2007	31 December 2007	Notes	30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets						
Property, plant and equipment	1,974	—	48,475			50,449
Goodwill	—	—	—	10,619	(c)(d)	10,619
Interests in associates	62,533	30,479	—	(76,883)	(a)	16,129
	64,507	30,479	48,475	(66,264)		77,197
Current assets						
Inventories	64,698	—	709			65,407
Amounts due from customers for contract work	—	—	29,117			29,117
Trade and bill receivables	15,071	—	23,302			38,373
Prepayments, deposits and other receivables	17,159	—	5,396			22,555
Amount due from ulitmate holding company	20,597	—	—			20,597
Amounts due from fellow subsidiaries	35,027	—	321			35,348
Taxation recoverable	2,041	—	1,718			3,759
Bank balances and cash	218,002	27	74,226	(37,417)	(b)	254,838
	372,595	27	134,789	(37,417)		469,994

	The Group	Intersource	LC GenerSoft	Pro forma adjustments		Unaudited pro forma consolidated balance sheet of Enlarged Group
	30 June 2007	31 December 2007	31 December 2007	31 December 2007	Notes	30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Current liabilities						
Amounts due to customers for contract work	—	—	(4,450)			(4,450)
Trade payables	(62,432)	—	(3,804)			(66,236)
Other payables and accrued liabilities	(16,699)	(32)	(28,006)			(44,737)
Amounts due to fellow subsidiaries	(7,219)	—	(324)			(7,543)
Amount due to a shareholder	—	—	(121)			(121)
Amount due to ultimate holding company	(8,884)	—	(158)			(9,042)
Taxation payable	(538)	—	—			(538)
	(95,772)	(32)	(36,863)			(132,667)
Net current assets (liabilities)	276,823	(5)	97,926	(37,417)		337,327
Total assets less current liabilities	341,330	30,474	146,401	(103,681)		414,524
Capital and Reserves						
Share capital	(5,143)	(442)	(42,594)	43,036	(f)	(5,143)
Reserves	(149,421)	(30,032)	(100,520)	130,552	(a)(f)	(149,421)
	(154,564)	(30,474)	(143,114)	173,588		(154,564)
Minority interests	(6,160)	—	(460)	(69,907)	(e)	(76,527)
Total equity	(160,724)	(30,474)	(143,574)	103,681		(231,091)
Non-current liabilities						
Deferred income-government grant	—	—	(2,827)			(2,827)
Redeemable convertible preferred shares	(180,606)	—	—			(180,606)
	(180,606)	—	(2,827)			(183,433)
	(341,330)	(30,474)	(146,401)	103,681		(414,524)

Notes:

Prior to the Acquisition, the Group has 30.05% equity interests in LC Genersoft and it was accounted for as an associate in the unaudited consolidate balance sheet of the Group as at 30 June 2007. Upon completion of the Acquisition, 21.26% additional equity interests in LC Genersoft will be acquired by the Group and it will be accounted for as a 51.31% non wholly owned subsidiary of the Company. The pro forma adjustments are to reflect the following:

(a) Reverse of interests in an associate as set out in the consolidated balance sheets of the Group and Intersource respectively;

(b) the consideration of RMB35,079,000 paid in cash on completion of the Acquisition assuming the actual audited profit after tax of LC GenerSoft for the financial year ending 31st December, 2008 will be higher than RMB25,000,000;

(c) Goodwill is determined based on the consideration of RMB35,079,000 and the relevant interest of the carrying amount of the identifiable assets and liabilities of Intersource and LC GenerSoft to be acquired by the Group as at 31 December 2007, as set out in Appendix II to this circular;

(d) Transfer of the premium on acquisition of LC GenerSoft of HK$3,676,000 recorded in interests in associates of the Group to Goodwill balance;

(e) Minority interests represented the 48.69% share of the identifiable assets and liabilities of LC Genersoft as at 31 December 2007 will be recorded on the consolidation balance sheet of the Group at the date of completion of the Acquisition; and

(f) Reverse of share capital and pre-acquisition reserves of Intersource and LC GenerSoft as at 31 December 2007.

For the purpose of this unaudited pro forma consolidated balance sheet, it is assumed that the fair value of the identificable assets and liabilities are the same as their carrying amounts as at 31 December 2007. On completion of the Acquisition, the fair value of the net identifiable assets and liabilities of LC Genersoft will have to be reassessed. As a result of the reassessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma financial information. Accordingly, the actual goodwill at the date of completion may be different from that presented above.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and is not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) *Long positions in Shares*

Name of Director	Type of interests	Number of Shares	Percentage of interests
Wang Miao	Beneficial owner	75,000,000	2.47%
Wang Hung, Alex	Beneficial owner	75,000,000	2.47%

(ii) *Long positions in underlying Shares of the Company.*

Name of Director	Type of interests	Description of equity derivates *(Note 1)*	Number of underlying Shares	Percentage of interests
Sun Pishu	Beneficial owner	share option	20,000,000	0.66
Zhang Lei	Beneficial owner	share option	20,000,000	0.66
Leung Chi Ho	Beneficial owner	share option	20,000,000	0.66
Wang Miao	Beneficial owner	share option	20,000,000	0.66
Wang Hung, Alex	Beneficial owner	share option	20,000,000	0.66
Xin Wei Hua	Beneficial owner	share option	20,000,000	0.66

Note 1: The share options were granted under the pre-IPO share option scheme adopted by the Company on 8 April 2004 at a subscription price of HK$0.0648 per Share. Up to the Latest Practicable Date, none of the above share options had been exercised.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) **Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group:

Long positions in Shares

Name of Shareholders	Type of interests	Number of Shares	Approximate percentage of interests
Inspur Group Limited	Interest of controlled corporation *(Note 1)*	1,350,000,000	44.55%
Inspur Electronics (HK) Limited	Beneficial owner	1,350,000,000	44.55%

Note 1: Inspur Group Limited is taken to be interested in 1,350,000,000 Shares due to its being 100% shareholders in the issued share capital of Inspur Electronics (HK) Limited.

Long positions in series A senior redeemable convertible voting preferred shares of the Company

Name of Shareholders	Type of interests	Number of Preferred Shares	Number of underlying Shares	Approximate percentage of interests
Microsoft Corporation	Beneficial owner	234,279,559	1,171,397,795	100%

Long positions in members of the Enlarged Group

Name of shareholders	Equity interest held	Approximate percentage of shareholding in the members of the Enlarged Group
Shangdong Inspur Cheeloosoft Company Limited	RMB19,442,624.48 in the registered capital of LC Genersoft	48.69%
Shangdong Inspur Cheeloosoft Company Limited	RMB 7,000,000 in the registered capital of Shangdong Langchao Electronic Business Software Company Limited (山東浪潮電子政務軟件有限公司)	46.67%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

3. DIRECTORS' OTHER INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of them or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Enlarged Group.

4. LITIGATION AND CLAIMS

As at the Latest Practicable Date, neither the Company nor any other member of the Enlarged Group is engaged in any litigation or claims of material importance pending and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest audited financial statements of the Company were made up.

7. EXPERTS

REXCAPITAL and Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their respective letters and/or references to their names in the form and context in which they respectively appear.

The following are the qualifications of the experts who have provided advice and reports (as the case may be), which are contained in this circular:

Name	Qualification
REXCAPITAL	A licensed corporation to carry out type 6 (advising on corporate finance) of the regulated activity under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, REXCAPITAL and Deloitte Touche Tohmatsu were not beneficially interested in the share capital of any member of the Group nor did either of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Enlarged Group nor did either of them have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2006), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group after the date two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the sale and purchase agreement dated 17 August 2006 between Lang Chao (Shandong) Electronic Information Company Limited, an indirect wholly-owned subsidiary of the Company, and Jinan Peng Zhi Technology Development Company Limited in relation to the acquisition of 49% equity interest in Shandong Chaoyue Digital Electronics Company Limited at a consideration of RMB7,122,150;

(b) the six subscription agreements all dated 24 September 2007 between the Company and six investors for the subscription for an aggregate of 50,000,000 Shares at a subscription price of HK$0.94 per share;

(c) the sale and purchase agreement dated 2 November 2007 between the Company and Inspur (Shandong) Electronic Information Company Limited as purchasers and Sparkle Rise Investments Limited and Shandong Inspur Electronic Information Technology Company Limited as vendors in relation to the Inspur Communication Transaction at a consideration of RMB88,000,000 (subject to adjustment);

(d) the Acquisition Agreement;

(e) the placing agreement dated 4 January 2008 between the Company and Vision Finance International Company Limited for the placing of up to 100,000,000 Shares at a placing price of HK$1.25 per share on a best effort basis; and

(f) the sale and purchase agreement dated 19 February 2008 between Jinan Inspur Network Technology Development Limited as vendor and Inspur (Shangdong) Electronic Information Company Limited as purchaser in relation to the acquisition of 60% equity interest in Shandong Inspur Business System Company Limited at a consideration of RMB36,000,000 (subject to adjustment).

Save as disclosed above, the Directors are not aware of other material contracts (not being contracts in the ordinary course of business) which have been entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date.

9. DIRECTORS AND SENIOR MANAGEMENT PROFILE

Directors

Mr. Sun Pishu (孫丕恕), aged 45, is the chairman of the Board. He joined the Group in August 1998. Mr. Sun is currently a delegate of the People's Congress of the PRC. He graduated from Shandong University with a Bachelor of Science degree in wireless electronics in 1983 and Armstrong University in California, US with a Master of Business Administration degree in 2002. He has attained over 15 years' experience in the IT industry particularly with its service in the Inspur Group. He was a member of the State 863 Planning Expert Committee (國家863計劃專家委員會) and was awarded the title of Key Award Technological Personnel (重獎科技人員) by the Shandong provincial government. He was also awarded as The 13th Top Ten Outstanding Youth Award in the PRC in 2002. He is a director of a number of members of the Inspur Corporation and its subsidiaries ("Inspur Group") as well as Inspur Group Limited ("Inspur Corporation") and is the chairman of Inspur Corporation and Inspur Electronic Information Industry Co., Ltd., a company listed on the Shenzhen Stock Exchange. Mr. Sun is responsible for and devotes a substantial part of his time and effort for the overall planning and development of the Group. Mr. Sun is also a director of Inspur Electronics (HK) Limited, a Shareholder holding 44.55% interest in the Company.

Mr. Zhang Lei (張磊), aged 44, is the general manager of the Group. He has overall responsibility and devotes a substantial part of his time and effort for the finance, general administration and technology departments. He joined the Group in February 2003. Mr. Zhang graduated from Shandong University with a Bachelor of Science degree in Wireless Electronics and a Master degree in Economics in 1983 and 1992 respectively. Mr. Zhang has over 16 years' experience in financial and corporate management. Mr. Zhang was responsible for the Business Department in Shenyang People's Bank Shenyang Securities Exchange (瀋陽市人民銀行瀋陽證券交易中心). Before joining the Inspur Group in 2000, Mr. Zhang was the vice-president of Shenyang Wanzhong Group (瀋陽萬眾集團). He is a director of a number of subsidiaries of the Inspur Group but has not undertaken any active role in the day-to-day management of such companies.

Mr. Wang Miao (王渺), aged 45, is the deputy general manager and compliance officer of the Group, an executive director and an Initial Management Shareholder. He has overall responsibility for the overall management planning, business development, sales and marketing and purchasing. Mr. Wang graduated from Shandong University in July 1984 with a Bachelor degree in Computer Science. Mr. Wang is one of the founders of the Group. Before joining the Group in August 1998, Mr. Wang worked in the Inspur Group since 1991 and assumed a senior management role in the business of the Inspur Group. Through its services in the Inspur Group and the Group, Mr. Wang has accumulated over 11 years of experience in trading and management in IT industry. Mr. Wang is also a director of Inspur Electronics (HK) Limited.

Mr. Leung Chi Ho (梁智豪), aged 48, is the chief technology officer of the Group responsible for the overall planning and development of IT advisory services. Mr. Leung graduated from the University of Hong Kong with a degree in Bachelor of Science (Engineering) majoring in electrical engineering in 1982. Before joining the Group in September 2002, Mr. Leung has worked for a number of companies in Hong Kong engaged in IT industry, focusing on the research and development of computer products and assuming senior engineer role, through which he has accumulated over 21 years of experience in IT industry.

Mr. Xin Wei Hua (辛衛華), aged 52, is a non-executive director. He joined the Group in September 1999. Mr. Xin graduated from Shandong University with an Adult Higher Education Professional Certificate in Micro-computer Applications in 1990. Mr. Xin has assumed research supervisor and manager roles in the Inspur Group during its service in the Inspur Group since 1989, through which he has accumulated over 16 years experience in management and research and development for electronics and computer products. Mr. Xin has engaged extensively in technological research in Hong Kong and Singapore, and has been granted the First Grade Advancement Award of provincial level (省級科技進步一等獎). He is a director of a number of companies of the Inspur Group. He is also the general manager of Inspur Electronic Information Industry Co., Ltd., a company listed on the Shenzhen Stock Exchange and a member of the Inspur Group, and a director of Inspur Electronics (HK) Limited and Inspur Corporation.

Mr. Wang Hung, Alex (王衡), aged 45, is a non-executive director and an initial management shareholder. He joined the Group in August 1998. Mr. Wang graduated in 1991 from Louisiana Tech University in the US with a Master of Science degree in Electrical Engineering and has over 16 years experience in the IT industry. Before joining the Group in August 1998, Mr. Wang has been a design expert and an experienced engineer in Synchrous Group Inc., deputy general manager of the engineering department of Pacific Information Inc., technical deputy general manager of Mighty Micro Inc. and general manager of Pacific Information Inc.. He is the technical controller of Inspur Electronic Information Industry Co., Ltd., a company listed on the Shenzhen Stock Exchange and a member of the Inspur Group, and a director of Inspur Electronics (HK) Limited.

Mr. William James Fass, aged 53, is a non-executive director and joined the Group in June 2006. Mr. Fass is the director of Global Partners of Microsoft with focus on partners that deliver services through the offshore business model. Mr. Fass is also part of the Enterprise and Partner Group ("**EPG**") based in Redmond, Washington. Prior to taking on this role, Mr. Fass spent the past three years managing the Accenture and Avanade Global Alliance. Mr. Fass joined Microsoft in 1994 as the worldwide Group Marketing and Strategy Manager for Product Support and Services. In this role he strengthened the enterprise value proposition of Premier and introduced Global Premier to the market. In 1996 Mr. Fass moved to Microsoft Germany taking on the role of sales director, EPG for Microsoft's Eastern European region with responsibility for Enterprise Sales, Technology Specialist community, Product Support and Services, and Microsoft Consulting Services. Mr. Fass returned to Microsoft US in 1999 to take on the role of Director, Carpoint International Business Development where he established Carpoint franchises in Canada and UK and laid the foundation for European expansion. Prior to joining Microsoft, Mr. Fass has sixteen year's of experience with IBM in a variety of large account and enterprise marketing, sales, sales management and strategic planning positions. Mr. Fass holds a Bachelor of Science degree from the University of California at Davis in Economics and Business Management.

Mr. Meng Xiang Xu, aged 45, is an independent non-executive director and joined the Group in March 2003. Mr. Meng graduated from Calculator Institute of Academy of Science (中國科學院計算所), majoring in computer application, and has obtained a Doctorate degree in 1998. He currently holds a senior position in a number of universities and committees including the dean of Computer Science and Technology College of Shandong University (山東大學計算機科學與技術學院), dean, professor and PhD tutor of Shandong University Qilu Software College (山東大學齊魯軟件學院), head of the expert group for the digitalisation of Shandong province (山東省信息化工作領導小組專家組) and supervisor of Shandong Province Manufacturing Information Technical Engineering Technology Research Center (山東省製造業信息化工工程技術研究中心). He is mainly engaged in the research and development of computer-aided design and graphics, and human interaction with computers.

Mr. Liu Ping Yuan, aged 72, is an independent non-executive director and joined the Group in March 2003. Mr. Liu has been in the IT related industry for over 41 years detailed as follows. He has undertaken a number of important positions in the PRC such as Ministry of Posts and Telecommunications (中華人民共和國郵電部), deputy chairman and secretary general of the Chinese Committee of the 22nd Meeting of the International Postal Association (萬國郵政聯盟大會中國組委會) and member of the Ninth National Political Consultative Committee (中華人民共和國政治協商會議). He is currently chairman of Chinese Postal Association (中華全國集郵聯合會).

Mr. Wong Lit Chor, Alexis, aged 49, is an independent non-executive director and joined the Group in March 2003. Mr. Wong graduated from University of Toronto, Canada with a bachelor degree in arts (economics and commerce) and has obtained a master of business administration degree from the Chinese University of Hong Kong. He has over 21 years of banking, investment, corporate finance and securities dealing experience gained by working as a senior executive in a number of listed local and PRC financial services companies. He is currently a director of Quam Capital Holdings Limited, a subsidiary of Quam Limited which in turn is a company listed on the Main Board of the Stock Exchange providing comprehensive financial services. Mr. Wong is also an independent non-executive director of Wing Hing International (Holdings) Limited, Fortune Telecom Holdings Limited and Argos Enterprises Holdings Limited, which are companies listed on the Stock Exhange.

Senior management

Mr. Chung Kwok Fai, aged 35, has more than 11 years of experience in audit and accounting field. Prior to joining the Company, Mr. Chung worked in an international accounting firm and was a financial controller in a private company in Hong Kong. Mr. Chung holds a Bachelor's Degree in Accountancy and is a member of Hong Kong Institute of Certified Public Accountants. He joined the Group in October 2007.

Mr. Dong Hailong (董海龍), aged 30, is the manager of the purchasing department responsible for maintaining and improving the relationship between the Group and its suppliers. Mr. Dong was graduated from Southwest Jiaotong University with a Bachelor degree in Telecommunication Engineering in 1999. Mr. Dong joined the Group in 2002.

Mr. Zou Bo, aged 29, is the manager of marketing department responsible for sales and marketing activities of the Group, in particular in maintaining relationship with existing customers, and identifying and soliciting new customers. He has extensive experience in business operation, Mr. Zou was graduated from Huazhong University of Science and technology with a bachelor degree in management and law in 2001. Mr Zou joined the Group in 2006.

10. MISCELLANEOUS

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, and the head office and principal place of business in Hong Kong of which is at Room 726, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Kowloon, Hong Kong.

(b) The principal share registrar and transfer office of the Company is Butterfield Bank (Cayman) Ltd. at Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, British West Indies, and the Hong Kong branch share registrar and transfer office of which is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The company secretary and qualified accountant of the Company is Mr. Chung Kwok Fai who is an associate member of the Hong Kong Institute of Certified Public Accountants.

(d) The compliance officer of the Company is Mr. Wang Miao, an executive Director, who is a graduate from Shandong University with a bachelor degree in computer science.

(e) The Company has 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, among other things, to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising the three independent non-executive Directors, namely, Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis. Further details of them are set out below:

Mr. Meng Xiang Xu, aged 45, currently holds a senior position in a number of universities and committees including the dean of Computer Science and Technology College of Shandong University (山東大學計算機科學與技術學院), dean, professor and PhD tutor of Shandong University Qilu Software College (山東大學齊魯軟件學院), head of the expert group for the digitalisation of Shandong province (山東省信息化工作領導小組專家組) and supervisor of Shandong Province Manufacturing Information Technical Engineering Technology Research Center (山東省製造業信息化工工程技術研究中心). He is mainly engaged in the research and development of computer-aided design and graphics, and human interaction with computers.

Mr. Liu Ping Yuan, aged 72, has over 41 years of experience in information technology related industry. He has undertaken a number of important positions in the PRC such as Ministry of Posts and Telecommunications (中華人民共和國郵電部), deputy chairman and secretary general of the Chinese Committee of the 22nd Meeting of the International Postal Association (萬國郵政聯盟大會中國組委會) and member of the Ninth National Political Consultative Committee (中華人民共和國政治協商會議). He is currently chairman of Chinese Postal Association (中華全國集郵聯合會).

Mr. Wong Lit Chor, Alexis, aged 49, has over 21 years of banking, investment, corporate finance and securities dealing experience gained by working as a senior executive in a number of listed local and PRC financial services companies. He is currently a director of Quam Capital Holdings Limited, a subsidiary of Quam Limited which in turn is a company listed on the Main Board of the Stock Exchange providing comprehensive financial services both through conventional and on-line platforms. Mr. Wong is also an independent non-executive director of Wing Hing International (Holdings) Limited, a company listed on the Main Board of the Stock Exchange engaged in construction and waste water treatment businesses and Argos Enterprises Holdings Limited, a company listed on GEM engaged in bus operation, city touring and sightseeing business in China.

(f) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the EGM:

(a) memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(c) the annual reports of the Company for each of the two years ended 31 December 2006;

(d) the accountants' report from Deloitte Touche Tohmatsu as set out in Appendix III to this circular;

(e) the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(f) the letter of advice from REXCAPITAL to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 27 of this circular;

(g) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 18 in this circular;

(h) the written consents from REXCAPITAL and Deloitte Touche Tohmatsu as referred to in the paragraph headed "Experts" in this Appendix; and

(i) the circular of the Company dated 27 November 2007 in relation to the Inspur Communication Transaction.

INSPUR INTERNATIONAL LIMITED
浪 潮 國 際 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8141)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM"**) of Inspur International Limited (the "**Company**") will be held at Hong Kong International Trade & Exhibition Centre, Meeting Room 5, 7th Floor, 1 Trademart Drive, Kowloon Bay, Kowloon at 10:30 a.m. on Monday, 17 March 2008 for the purposes of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the acquisition agreement dated 18 December 2007 (the "**Acquisition Agreement**") between (i) Total Charm Investments Limited (全雅投資有限公司) as vendor and (ii) the Company as purchaser in relation to the acquisition of the entire issued share capital of Intersource Technology Limited (which is the beneficial owner of 21.26% of the registered capital of Inspur Group Shandong Genersoft Incorporation* (浪潮集團山東通用軟件有限公司) ("**LC Genersoft**")), a copy of the Acquisition Agreement has been produced to this meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder."

By order of the Board
Inspur International Limited
Sun Pishu
Executive Director

Hong Kong, 29 February 2008

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong:
Room 726
Nan Fung Commercial Centre
19 Lam Lok Street
Kowloon Bay
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

4. The voting on the resolution at the EGM will be conducted by way of a poll.