INSPUR INTERNATIONAL LIMITED
浪 潮 國 際 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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

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

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

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

* *For identification purposes only*

The board of Directors (the "Board") of Inspur International Limited (the "Company") is pleased to present the audited consolidated results (the "Audited Consolidated Results") of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the Year ended 31 December 2007

	NOTES	**2007**	2006
		HK$'000	*HK$'000*
Revenue	*5*	**922,174**	870,619
Cost of sales		**(829,508)**	(820,704)
Gross profit		**92,666**	49,915
Other income		**3,657**	3,975
Administrative expenses		**(39,670)**	(16,634)
Other operating expenses		**(7,611)**	–
Interest expenses		**(14,305)**	(11,984)
Share of profits of associates		**8,111**	2,645
Profit before taxation		**42,848**	27,917
Taxation	*7*	**(2,558)**	(2,770)
Profit for the year	*8*	**40,290**	25,147
Attributable to:			
Equity holders of the parent		**38,801**	25,160
Minority interests		**1,489**	(13)
		40,290	25,147
Dividend	*9*	**7,715**	15,333
Earnings per share	*10*		
Basic		**HK1.48 cents**	HK0.99 cents
Diluted		**HK1.32 cents**	HK0.99 cents

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	NOTE	**2007**	2006
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**3,777**	1,762
Goodwill		**30,542**	–
Other intangible assets		**12,288**	–
Interests in associates		**71,148**	58,512
		117,755	60,274
Current assets			
Inventories		**56,341**	45,297
Trade receivables		**59,408**	13,787
Prepayments, deposits and other receivables		**13,689**	8,299
Amounts due from customers for contract work		**6,136**	–
Amount due from an associate		**–**	58
Amounts due from fellow subsidiaries		**37,625**	15,523
Amount due from ultimate holding company		**285,171**	141,053
Taxation recoverable		**293**	897
Bank balances and cash		**167,236**	148,158
		625,899	373,072
Current liabilities			
Trade and bills payables		**122,342**	61,264
Other payables and accrued expenses		**81,273**	20,825
Amounts due to customers for contract work		**2,101**	–
Amounts due to fellow subsidiaries		**65,304**	7,099
Amount due to immediate holding company		**–**	39
Amount due to ultimate holding company		**3,646**	–
Taxation payable		**480**	–
		275,146	89,227
Net current assets		**350,753**	283,845
Total assets less current liabilities		**468,508**	344,119
Non-current liabilities			
Redeemable convertible preferred shares		**181,840**	179,274
Deferred tax liabilities		**3,072**	–
		184,912	179,274
		283,596	164,845
Capital and reserves			
Share capital	*11*	**5,861**	5,143
Reserves		**268,793**	152,984
Equity attributable to equity holders of the parent		**274,654**	158,127
Minority interests		**8,942**	6,718
Total equity		**283,596**	164,845

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the parent									
	Share capital	Share premium	Special reserve	Preferred shares equity reserve	Share option 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$'000*	*HK$'000*
At 1 January 2006	4,911	66,862	92	6,387	–	(221)	43,674	121,705	–	121,705
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	8,643	–	8,643	–	8,643
Profit for the year	–	–	–	–	–	–	25,160	25,160	(13)	25,147
Total recognised income (expense) 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)
	232	6,669	–	11,051	–	–	(15,333)	2,619	6,731	9,350
At 31 December 2006	5,143	73,531	92	17,438	–	8,422	53,501	158,127	6,718	164,845
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	21,576	–	21,576	735	22,311
Profit for the year	–	–	–	–	–	–	38,801	38,801	1,489	40,290
Total recognised income for the year	–	–	–	–	–	21,576	38,801	60,377	2,224	62,601
Exercise of share options	218	5,886	–	–	–	–	–	6,104	–	6,104
Issuance of new shares	500	46,500	–	–	–	–	–	47,000	–	47,000
Transaction costs attributable to issue of shares	–	(176)	–	–	–	–	–	(176)	–	(176)
Recognition of equity-settled share-based payments	–	–	–	–	10,937	–	–	10,937	–	10,937
Dividend paid	–	–	–	–	–	–	(7,715)	(7,715)	–	(7,715)
	718	52,210	–	–	10,937	–	(7,715)	56,150	–	56,150
At 31 December 2007	5,861	125,741	92	17,438	10,937	29,998	84,587	274,654	8,942	283,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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, a company incorporated in Hong Kong and its ultimate holding company is Inspur 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 and computer peripherals.

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"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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 arrangements[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 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 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 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 business 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.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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.

Goodwill

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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.

Revenue from sales of goods is 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out 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 customers are included in the consolidated balance sheet under trade receivables.

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 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations outside Hong Kong 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.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a operation on or after 1 January 2005 are treated as assets and liabilities of the operation outside Hong Kong and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

All borrowing costs are recognised as and included in finance cost 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.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

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, amounts due from customers for contract works 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.

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.

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

Impairment of financial assets – loans and receivables

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

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.

Interest expense is recognised on an effective interest basis.

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.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and amounts due to fellow subsidiaries and immediate holding company 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.

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 on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to 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 these equity-settled shared-based payments until such time when the share options were exercised. The amount in excess of the share capital was recorded as share premium.

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. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**557,545**	320,052
Financial liabilities		
Amortised cost	**427,557**	268,488

Financial risk management objectives and policies

The Group's major financial instruments include amounts due from customers for contract work, amounts due from fellow subsidiaries and ultimate holding company, trade receivables, other receivables, trade payables, other payables, amounts due to ultimate holding company and fellow subsidiaries, 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.

Market risk

Currency risk

The Group collects most of its revenue in Hong Kong dollars ("HKD") and Renminbi ("RMB") and incurs most of the expenditures as well as capital expenditures in HKD and RMB. The directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity.

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

The directors consider that the sensitivity of the Group's exposures towards the change in foreign exchange rates is minimal as the assets and liabilities of the Group denominated in currency other than functional currency of a particular group entity were insignificant as at the balance sheet dates.

Fair value interest rate risk

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

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.

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 2007 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 2007 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, being the largest customer and fellow subsidiaries, two of which being the top five customers.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains adequate cash and cash equivalents by continuously monitor forecast and actual cash flows and matching the maturity profiles of certain financial assets (including trade receivables, amounts due from fellow subsidiaries and ultimate holding company and bank balances and cash) and certain financial liabilities (including trade and bills payables, other payables, amounts due to fellow subsidiaries and interest payable of redeemable convertible preferred shares).

The following table details the Company's remaining contractual maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of those financial assets including interest that will be earned on those assets except for bank balances and cash:

	Weighted average interest rate	Less than 3 months	3 months to 6 months	6 months to 1 year	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007						
Trade receivables	–	39,826	19,582	–	59,408	59,408
Amounts due from fellow subsidiaries	–	37,625	–	–	37,625	37,625
Amount due from ultimate holding company	–	142,055	143,116	–	285,171	285,171
Bank balances and cash	–	167,236	–	–	167,236	167,236
		386,742	162,698	–	549,440	549,440
2006						
Trade receivables	–	13,787	–	–	13,787	13,787
Amounts due from fellow subsidiaries	–	15,523	–	–	15,523	15,523
Amount due from ultimate holding company	–	141,053	–	–	141,053	141,053
Bank balances and cash	–	148,158	–	–	148,158	148,158
		318,521	–	–	318,521	318,521

The following table details the Company'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.

	Weighted average effective interest rate	Less than 3 months	3 – 6 months	6 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007							
Non-derivative financial liabilities							
Trade and bills payables	–	122,342	–	–	–	122,342	122,342
Other payables	–	58,071	–	–	–	58,071	58,071
Amounts due to fellow subsidiaries	–	65,304	–	–	–	65,304	65,304
Redeemable convertible preferred shares *(note)*	6%	–	–	11,656	229,230	240,886	181,840
		245,717	–	11,656	229,230	486,603	427,557

	Weighted average effective interest rate	Less than 3 months	3 – 6 months	6 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006							
Non-derivative financial liabilities							
Trade and bills payable	–	61,264	–	–	–	61,264	61,264
Other payables	–	20,772	–	–	–	20,772	20,772
Amounts due to fellow subsidiaries	–	7,099	–	–	–	7,099	7,099
Redeemable convertible preferred shares *(note)*	6%	–	–	11,721	240,886	252,607	179,274
		89,135	–	11,721	240,886	341,742	268,409

Note: In view of the strategic relationship with the holder of redeemable convertible preferred shares and the average share price of the Company is higher than the convertible price of the redeemable convertible preferred shares, the directors of the Company consider the redeemable convertible preferred shares will be converted into shares of the Company prior to its maturity date. Accordingly, it is unlikely that potential cash outflows of HK$194,263,000 (2006: HK$194,263,000) in the settlement of the redeemable convertible preferred shares will be expected.

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 to their fair values.

5. 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:

	2007	2006
	HK$'000	*HK$'000*
Sales of computer components	**490,041**	684,445
Sales of computer products	**401,726**	185,047
Sales of computer peripherals in connection with software development contracts	**16,623**	–
Revenue from software development contracts	**13,784**	1,127
	922,174	870,619

6. SEGMENT INFORMATION

Business segment

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 sale of computer software. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Income statement for the year ended 31 December 2007

	Trading of computer components	**Manufacture and trading of computer products**	**Development and sale of computer software**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	490,041	401,726	30,407	922,174
Segment results	10,536	47,680	4,277	62,493
Unallocated income				2,373
Unallocated corporate expenses				(15,824)
Share of profits of associates	–	–	8,111	8,111
Interest expenses				(14,305)
Profit before taxation				42,848
Taxation				(2,558)
Profit for the year				40,290

Balance sheet at 31 December 2007

	Trading of computer components HK$'000	Manufacture and trading of computer products HK$'000	Development and sale of computer software HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	54,824	338,361	111,632	504,817
Interests in associates	–	–	71,148	71,148
Unallocated corporate assets				167,689
Consolidated total assets				743,654
LIABILITIES				
Segment liabilities	40,409	158,474	40,194	239,077
Unallocated corporate liabilities				220,981
Consolidated total liabilities				460,058

Other information for the year ended 31 December 2007

	Trading of computer components HK$'000	Manufacture and trading of computer products HK$'000	Development and sale of computer software HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	–	1,479	1,371	1	2,851
Additions to goodwill arising on acquisition of subsidiaries	–	–	30,542	–	30,542
Additions to other intangible assets on acquisition of subsidiaries	–	–	12,767	–	12,767
Depreciation of property, plant and equipment	–	564	166	204	934
Write-down of inventories	1,258	–	–	–	1,258
Amortisation of other intangible assets	–	–	479	–	479
Allowance for bad and doubtful debts	7,132	–	–	–	7,132

Income statement for the year ended 31 December 2006

	Trading of computer components HK$'000	Manufacture and trading of computer products HK$'000	Development and sale of computer software HK$'000	Consolidated HK$'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 profits of associates	–	–	2,645	2,645
Interest expenses				(11,984)
Profit before taxation				27,917
Taxation				(2,770)
Profit for the year				25,147

Balance sheet at 31 December 2006

	Trading of computer components HK$'000	Manufacture and trading of computer products HK$'000	Development and sale of computer software HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	61,810	162,002	1,967	225,779
Interests in associates	–	–	58,512	58,512
Unallocated corporate assets				149,055
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 *HK$'000*	Manufacture and trading of computer products *HK$'000*	Development and sale of computer software *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Additions to property, plant and equipment	–	1,897	326	8	2,231
Depreciation of property, plant and equipment	–	126	59	404	589
Write-down of inventories	1,621	–	–	–	1,621

Geographical segments

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

The following table provides an analysis of the Group's turnover by location of markets, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2007 ***HK$'000***	2006 *HK$'000*
Hong Kong	**490,041**	684,445
The PRC (excluding Hong Kong)	**432,133**	186,174
	922,174	870,619

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, other intangibles assets and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, other intangible assets and goodwill	
	2007 ***HK$'000***	2006 *HK$'000*	**2007** ***HK$'000***	2006 *HK$'000*
Hong Kong	**54,824**	61,810	**1**	8
The PRC (excluding Hong Kong)	**449,993**	163,969	**46,159**	2,223
	504,817	225,779	**46,160**	2,231

7. TAXATION

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**2,477**	2,770
PRC Enterprise Income Tax	**268**	–
Overprovision of Hong Kong Profits Tax in respect of previous years	**(67)**	–
Deferred taxation	**(120)**	–
	2,558	2,770

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 of 33% is applied to the Group except for Inspur Communication Information System Limited ("Inspur Communication") which was entitled to a preferential tax rate of 27%.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, 浪潮(山東)電子信息有限公司, 山東浪潮電子政務軟件有限公司 and Inspur Communication are 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. The first profit-making year for浪潮(山東)電子信息有限公司, 山東浪潮電子政務軟件有限公司 and Inspur Communication are the fiscal year ended 31 December, 2006, 31 December, 2007 and 31 December, 2004 respectively.

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 tax rate to 25% from 1st January, 2008.

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

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	**42,848**	27,917
Tax at the prevailing profits tax rate of 17.5% (2006: 17.5%)	**7,498**	4,886
Tax effect of share of profits of associates	**(1,420)**	(463)
Tax effect of expenses that are not deductible in determining taxable profit	**4,433**	2,234
Tax effect of income not taxable for tax purpose	**(121)**	(248)
Tax effect of tax losses not recognised	**1,514**	–
Effect of tax exemption granted to PRC subsidiaries	**(9,280)**	(3,852)
Overprovision in respect of previous years	**(67)**	
Others	**1**	213
Taxation for the year	**2,558**	2,770

At the balance sheet date, the Group has unused tax losses of HK$9,449,000 (2006: HK$798,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

8. PROFIT FOR THE YEAR

	2007	2006
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Allowance for bad and doubtful debts	**7,132**	–
Amortisation of other intangible assets	**479**	–
Auditor's remuneration	**1,500**	1,109
Cost of inventories recognised as expenses	**826,068**	819,083
Depreciation for property, plant and equipment	**934**	589
Directors' remuneration		
Fee	**227**	204
Other emoluments	**1,866**	2,666
Other staff costs		
Salaries and other benefits	**15,421**	4,966
Retirement benefit scheme contributions	**1,025**	295
	18,539	8,131
Interest expense on redeemable convertible preferred shares wholly repayable within five years	**14,287**	11,984
Interest expense on other borrowings wholly repayable within five years	**18**	–
	14,305	11,984
Net loss on disposal of property, plant and equipment	**21**	2
Operating lease rentals in respect of office premises and staff quarters	**1,219**	484
Write-down of inventories	**1,258**	1,621

9. DIVIDEND

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Final dividend for 2006, paid – HK1.5 cents (for 2005: HK3 cents) per share	**7,715**	14,733
Additional final dividend paid for 2005 shares issued under share option scheme	**–**	600
	7,715	15,333

No final dividend (2006: HK1.5 cents) per share has been proposed by the directors.

10. 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:

	2007	2006
	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)	**38,801**	25,160
Interest on redeemable convertible preferred shares	**14,287**	11,984
Earnings for the purposes of diluted earnings per share	**53,088**	37,144
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,628,034**	2,537,255
Effect of dilutive potential ordinary shares:		
– share options	**208,934**	206,440
– redeemable convertible preferred shares	**1,171,398**	1,018,730
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,008,366**	3,762,425

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 31 December 2006 has been adjusted for the share division which took effect on 14 December 2007.

11. SHARE CAPITAL OF THE COMPANY

	Notes	Number of shares *'000*	*HK$'000*
Authorised:			
Ordinary shares of HK$0.01 each at 1 January 2006 and 31 December 2006		1,000,000	10,000
Share subdivision	*1*	4,000,000	40,000
Ordinary shares of HK$0.002 each at 31 December 2007		5,000,000	50,000
Issued and fully paid:			
Ordinary shares of HK$0.01 each at 1 January 2006		491,100	4,911
Exercise of share options		23,200	232
Ordinary shares of HK$0.01 each at 31 December 2006		514,300	5,143
Placing of shares	*2*	50,000	500
Share subdivision	*1*	2,257,200	–
Exercise of share options	*3*	109,000	218
Ordinary shares of HK$0.002 each at 31 December 2007		2,930,500	5,861

Notes:

(1) Pursuant to an ordinary resolution passed on 14 December 2007, the Company's issued and unissued shares of HK$0.01 each were subdivided into 5 new shares of HK$0.002 each ("Share Subdivision"). The Share Subdivision took effect on 14 December 2007.

(2) On 16 October 2007, completion took place for private placements to independent private investors of 50,000,000 new shares of HK$0.01 each in the Company, at subscription price of HK$0.94 per share. The proceeds were used to provide additional working capital for the Company.

(3) On 17 December 2007, share options for 109,000,000 of HK$0.002 each were exercised at the exercise price of HK$0.056.

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

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

FINANCIAL REVIEW

During the year, the Group recorded a turnover of HK$922,174,000 (2006: HK$870,619,000), increased by 5.92% as compared with last year which was mainly attributable to the increase in sales in manufacture and trading of computer products and development and sales of computer software. Turnover from trading of computer components was decreased during the year.

Gross profit was HK$92,666,000 (2006: HK$49,915,000) with gross profit margin of 10.05% (2006: 5.73%), increased by 85.65% and 75.39% respectively which was mainly due to the change in sales mix in 2007, with more sales of computer products which yielded higher margin than computer components.

Administrative expenses was HK$39,670,000 (2006: HK$16,634,000), increased by 138.49% which was mainly due to the incurring of share option cost and increase in operating expenses of PRC subsidiaries.

Share of profits of associates was HK$8,111,000 (2006: HK$2,645,000), increased by 206.65% which was mainly due to the increase in profitability of the two associates during the year.

Net profit attributable to shareholders was HK$38,801,000 (2006: HK$25,160,000), increased by 54.22% as compared with last year which was mainly attributable to the increase in sales of computer products, share of profits of associates and contribution from development and sales of computer software.

Capital structure

The Group finances its operations mainly from shareholder equity, internal generated funds and the 6% redeemable convertible preferred shares held by Microsoft Corporation. During the year, the Group conducted two fund raising activities through issue of ordinary shares and placing of ordinary shares in order to enhance its capital base.

On 16 October 2007, the Company completed the issue of 50,000,000 ordinary shares at HK$0.94 per share, and has received net proceeds of HK$47,000,000. On 14 December 2007, subdivision of share from HK$0.01 to HK$0.002 per share and change of board lot size from 8,000 shares to 5,000 subdivided shares were approved by the shareholders of the Company.

Subsequent to the balance sheet date, on 22 January 2008, the Company completed a placing of a total of 100,000,000 subdivided ordinary shares at HK$1.25 per share to certain strategic investors included Atlantis, Legg Mason and Merrill Lynch, and received net proceeds of approximately HK$121,100,000.

Liquidity and financial resources

As at 31 December 2007, shareholders' funds of the Group amounted to HK$274,654,000 (2006: HK$158,127,000). Current assets amounted to HK$625,899,000 (2006: HK$373,072,000) of which HK$167,236,000 (2006: HK$148,158,000) was cash and bank balances, mainly bank deposits denominated in Hong Kong dollars, Renminbi and US dollars and within three months of maturity when acquired. Current liabilities amounted to HK$275,146,000 (2006: HK$89,227,000), mainly comprised of trade payable, amounts due to fellow subsidiaries, other payables and accrued expenses and tax payable. The Group's current assets were approximately 2.27 times (2006: 4.18 times) over its current liabilities. As at 31 December 2007, the Group had no bank borrowings (2006: Nil). Gearing ratio of the Group, calculated as total interest-bearing borrowings divided by shareholders' equity, was 0.64 (2006:1.09).

Although the Group has maintained a liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2007, the Group's total available banking facilities, mainly import facilities, amounted to USD3,500,000 (2006: nil).

The Directors believe that the Group has sound financial position with sufficient resources to satisfy its capital expenditure and working capital requirements.

Foreign exchange exposure

All of the Group's sales and purchase are mainly denominated in United States Dollars and Renminbi. The Group has not used any derivative instrument to hedge against its currency exposures. The Directors believe that with its sound financial position, the Group is able to meet its foreign exchange liabilities as and when they become due.

Charges on assets

As at 31 December 2007, none of the Group's assets was pledged (2006: Nil).

Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities (2006: Nil).

BUSINESS REVIEW AND PROSPECT

2007 marked a landmark year to the Group in terms of corporate development. The Group completed a series of acquisitions in the PRC in businesses with promising prospects and also conducted a placing of shares to strategic investors. These moves had helped transforming the Group from a trading company who mainly engaged in trading of computer components, and manufacturing and trading of computers, into a IT services and software outsourcing provider. Our business targets at such prominent sectors include finance, taxation, telecom, government, and medium-to-large enterprises. We have successfully attained a leading competitive position in those industries, which forms a solid foundation for the Group's future growth.

I. Manufacturing and trading of computer products

During the year, sales volume of computers to South America recorded a strong growth of more than 50%, and the product portfolio had also been expanded from previously a single line to currently various lines of desktop computers. Moreover, we had also added notebook computers into our product offering and realized product growth with diversification. With the increasing demand for computer products in South America, the Group believes that it may continue to strive for technological innovation under the current business scale, and to forge a close partnership with its customers aiming at long-term cooperation and joint development.

II. Distribution of computer components

Following the shift in focus of the Group's business during the reporting period, the contributing proportion of computer components distribution business in our principle business will be lower.

III. Software and IT Services

During the reporting period, the Group had devoted greater resources in research and development of software products for financial and e-government services. The Group launched a series of new software products included a banking management and analysis software, a wealth management software and the V1.0 Inspur Government Public Service System jointly with Microsoft's China Technology Centre. These new products have enriched our product offering and met financial institutions' and government departments' demands of their differentiated back office management. The Group had also expanded its after-sale service personnel and service network for financial industry and established a more comprehensive after-sale service system, thereby enhanced the level of satisfaction of customers of our own proprietary products. The after-sale service network also served the purpose of providing maintenance management outsource service for financial industry equipments like ATM machines to financial institution clients, and enhanced our results substantially. The Group will place strong emphasis in developing software and IT services business, continue to expand market share in the financial market and e-government services sectors, and to intensify software commercialization process, optimize solution packages and lower development costs in order to expand our scale of business at higher pace.

Material acquisition, disposals and significant investment

Acquisitions made during the year were:

Acquisition – 100% in Inspur Communication Information System Limited

Pursuant to acquisition agreements dated 2 November 2007, the Group has acquired 100% equity interests in Inspur Communication Information System Limited, a company principally engaged in the provision of software development and maintenance services for telecommunication system and network in the PRC, at a consideration of RMB88,000,000, subject to valuation adjustment. In consequence of the acquisition of the business of Inspur Communication Information System Limited, the Group has diversified its business into telecom and IT service segments.

Acquisition – 21.26% in Inspur Group Shandong Genersoft Incorporation

Pursuant to an acquisition agreement dated 18 December 2007, the Group has agreed to acquire an additional 21.26% equity interests in Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft"), a company principally engaged in the development, distribution of enterprise resources planning products, and offering all-round services for enterprise informationization, at a consideration of RMB35,079,000, subject to valuation adjustment. Completion of the acquisition is subject to, among other things, the approval of shareholders in the extraordinary general meeting to be held on 17 March 2008. The Group's shareholding in Inspur Genersoft will be increased from 30.05% to 51.31% upon completion of the acquisition.

Save as disclosed above, the Group did not have any material acquisitions, disposals or change in its investments during the year ended 31 December 2007.

Details of acquisition made after year end are as follows:

Acquisition – 60% in Shandong Inspur Business System Company Limited

Subsequent to the balance sheet date, on 19 February 2008, the Group entered into an acquisition agreement pursuant to which the Group has agreed to acquire an additional 60% equity interests in Shandong Inspur Business System Company Limited ("IBS"), a company principally engaged in the development, production and sale of computer software and computer peripherals particularly in respect of computerized cashier machines and point-of-sale terminals, and the provision of relevant information technology solution services, at a consideration of RMB36,000,000, subject to valuation adjustment. Completion of the acquisition is subject to, among other things, the approval of shareholders in an extraordinary general meeting to be held. The Group's shareholding in IBS will be increased from 40% to 100% upon completion of the acquisition.

Prospect

The corporate development in 2007 and the past few years had paved the way for the Group's future expansion. Riding on a bright and promising market outlook and our competitive edge, the Group anticipates significant development in its business ahead.

The tax-collection cashier machines market

The PRC Government has resolved to introduce policies for promotion of the use of tax-collection cashier machines in the whole country. This will require companies of substantial size in the retail, food and beverage, entertainment, service and transportation industries to install tax-collection cashier machines within the next few years. It is anticipated that the market size could grow to above ten billions Renminbi in next few years, and there will be plenty of room for development in this market. Shandong Inspur Business System Company Limited (山東浪潮商用系統有限公司), the acquisition of which the Group already announced, had the largest market share in tax-collection cashier machine market for 4 successive years with its 浪潮 brand cashier machine. The Group intends to take full advantage of its leading position in tax-collection cashier machine market and to capitalize on its enormous market potential so that the Group's overall operation performance will be further improved by product and service expansion.

Telecom

The Group acquired Inspur Communication Information System Limited (浪潮通信信息系統有限公司) during the year. The company recorded strong business growth in 2007, with long-term clients included telecom operators like China Mobile, China Unicom, China Telecom and China Netcom. It has also expanded its business into overseas market. With the prospective launch of 3G communication technology in the PRC, the telecommunication industry will be boosted by a new round of investment fund inflow. Inspur Communication Information System Limited has been well prepared with the launch of 3G technology. With the full-scale commencement of 3G business, there will be plenty of opportunities in the communication industry for the Group to explore, and on this basis it is intended that the Group will rapidly expand the IT services segment in the communication business.

ERP

The ERP products of Inspur Genersoft (浪潮通用軟件) have taken leading positions in the respective sectors of State-owned Assets Supervision and Administration Commission pharmaceuticals, petroleum chemicals, food processing, manufacturing, and building and construction. The services provided by Inspur Genersoft has also been ranking first amongst management software providers. Moreover, the financial management software of Inspur Genersoft has been ranking first amongst management software products in the PRC in terms of customers satisfaction level. In PRC, there are about 38% of corporations which are directly under the State-owned Assets Supervision and Administration Commission and about 20% of listed companies now using the management software system of Inspur Genersoft. It will continue its effort in maintaining its current leading positions in the aforesaid industries, as well as expanding into the small-to-medium enterprises segment.

Future investments and acquistions

Capitalising on the leading position in the PRC IT industry of our controlling shareholder Inspur Group Limited, as well as the technical support from Microsoft, our preference shares holder, and riding on our strong cash position, the Group will, in line with market and product development trends, increase our effort on investing in our current niche markets in order to gain larger market share. As part of our key strategy for future development, the Group will also seek to acquire domestic businesses with excellent track records, so that our business portfolio, source of income and risk profile could be diversified.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2007, save as the Group has not performed an internal control review as recommended under Code provision C.2.1 during the year ended 31 December 2007 because suitable staffing has not been acquired to perform an effective review. The directors have planned, using internal resources or external firm, to perform an internal control review in the coming financial year in order to comply with Code C.2.1.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2007, including the accounting principles and practices adopted by the Group, in conjunction with the Group's external auditors, and is of the opinion that the preparation of such results comply with applicable accounting standards and requirements, and that adequate disclosures have been made.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 10 March 2008

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

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