THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a 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, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Inspur International Limited.

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
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF LANGCHAO WORLDWIDE SERVICES LIMITED

Independent financial adviser to the independent board committee and the independent shareholders of the Company

REXCAPITAL (Hong Kong) Limited

The notice convening an extraordinary general meeting ("**EGM**") of Inspur International Limited (the "**Company**") to be held at Hong Kong International Trade & Exhibition Centre, Meeting Room 5, 7th Floor, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong at 10:00 a.m. on Monday, 30 June 2008 is set out on pages N-1 to N-3 of this circular. Shareholders of the Company are advised to read the notice and complete and return the form of proxy for use at the EGM enclosed with this circular in accordance with the instructions printed thereon.

A form of proxy for the EGM is enclosed with this circular. Whether you are able to attend or not, please complete and return the enclosed form of proxy to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. The completion and delivery of a form of proxy will not preclude you from attending and voting at the EGM in person.

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

* *For identification purpose only*

13 June 2008

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

The Growth Enterprise market ("GEM") of the Hong Kong 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 requires otherwise:

"Accord Star"	Accord Star Limited, a company incorporated in the British Virgin Islands and one of the Vendors
"Acquisition"	the Acquisition by the Company of the entire issued share capital of Target from the Vendors subject to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the conditional sale and purchase agreement dated 5 May 2008 entered into by the Company as purchaser and the Vendors as vendors in relation to the Acquisition
"associates"	has the meaning ascribed to it under the GEM Listing Rules
"Benchmark Price"	HK$1.36272 per Share
"Board"	the board of Directors
"Company"	Inspur International Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the GEM
"Completion"	the completion of the Acquisition pursuant to the terms of the Acquisition Agreement
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Connected Transaction"	the acquisition of 34% equity interest in the Target by the Company from IEHK under the Acquisition
"Consideration"	the consideration for the Acquisition (comprising the Consideration Payment, Consideration Shares and Convertible Notes)
"Consideration Payment"	payment of HK$66,243,900 (after adjustment made to the initially set amount of HK$61,965,000) payable to IEHK as partial settlement of the Consideration pursuant to the terms of the Acquisition Agreement
"Consideration Shares"	51,471,029 (after adjustment made to the initially set quantity of 48,146,354) new Shares to be allotted and issued to Accord Star (or its designated nominee) as partial settlement of the Consideration pursuant to the terms of the Acquisition Agreement
"Conversion Shares"	the Shares falling to be issued upon the exercise of the conversion rights attaching to the Convertible Notes

"Convertible Notes"	the convertible notes of principal amount HK$58,450,500 (after adjustment made to the initially set principal amount of HK$54,675,000) to be issued to Accord Star as partial settlement of the Consideration pursuant to the terms of the Acquisition Agreement, comprising 2008 Convertible Notes and 2009 Convertible Notes
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the approving, amongst other things, the Acquisition
"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"	Rules Governing the Listing of Securities on GEM
"IEHK"	Inspur Electronics (HK) Limited which is a company incorporated in Hong Kong and is interested in approximately 44.62% of the issued share capital of the Company as at the Latest Practicable Date
"Independent Shareholders"	Shareholders other than IEHK, Accord Star and their ultimate beneficial owners and their respective associates
"Intersource Acquisition"	the acquisition of the entire issued share capital of Intersource Technology Limited by the Group pursuant to the acquisition agreement dated 18 December 2007 (details of the acquisition transaction are set out in the Company's circular dated 29 February 2008)
"Intersource Enlarged Group"	the Group as enlarged by the Intersource Technology Limited and its subsidiaries immediately after the completion of the Intersource Acquisition
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Last Trading Day"	5 May 2008, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading of the Shares on the Stock Exchange with effect on 2:30 p.m. on 5 May 2008

"Latest Practicable Date"	11 June 2008, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein
"Option(s)"	outstanding share options granted by the Company pursuant to pre-IPO employee share option scheme adopted by the Company on 8 April 2004 or the employee share option scheme adopted by the Company on 8 April 2004
"PRC"	the People's Republic of China
"Preferred Shares"	234,279,559 series A senior redeemable convertible voting preferred shares attached with rights of conversion to 1,171,397,795 Shares issued by the Company to Microsoft Corporation
"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 Agreement and the transactions contemplated thereunder
"SFO"	Securities and Futures Ordinance (chapter 571 of the laws of Hong Kong)
"Share(s)"	share(s) of HK$0.002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	Langchao Worldwide Services Limited, a company incorporated in the Cayman Islands
"Target Group"	Target and its subsidiaries
"Vendors"	Accord Star and IEHK
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America

"2008 Convertible Notes"	the convertible notes of principal amount HK$29,225,250 (after adjustment made to the principal amount initially set at HK$27,337,500) to be issued by the Company under the terms of the Acquisition Agreement with conversion period commencing from the issue of the audited financial statements of the Target Group for the financial year ending 31 December 2008
"2009 Convertible Notes"	the convertible notes of principal amount HK$29,225,250 (after adjustment made to the principal amount initially set at HK$27,337,500) to be issued by the Company under the terms of the Acquisition Agreement with conversion period commencing from the issue of the audited financial statements of the Target Group for the financial year ending 31 December 2009
"%"	per cent

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
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P.O. Box 2681
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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

13 June 2008

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF LANGCHAO WORLDWIDE SERVICES LIMITED

INTRODUCTION

On 8 May 2008, the Board announced that on 5 May 2008, the Company entered into the Acquisition Agreement with IEHK and Accord Star (collectively, the "**Vendors**") pursuant to which the Company conditionally agreed to purchase and the Vendors agreed to sell the entire issued share capital of the Target at the consideration of HK$194,835,000 (after adjustment made to the amount initially set at HK$182,250,000).

The purpose of this circular is to provide you with further information regarding, among other things, (i) further information about the Acquisition, (ii) the recommendation from the Independent Board Committee to the Independent Shareholders, (iii) the letter of advice from REXCAPITAL to the Independent Board Committee and the Independent Shareholders, (iv) financial information about the Target Group, and (v) the notice of the EGM.

* *For identification purpose only*

THE ACQUISITION AGREEMENT

Date:	5 May 2008		
Parties :	(1) Vendors :	(a)	Accord Star Limited ("**Accord Star**"); and
		(b)	Inspur Electronics (HK) Limited ("**IEHK**"); and
	(2) Purchaser		The Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Accord Star and its ultimate beneficial owner are third parties independent of and not connected with the Company and its subsidiaries and their connected persons. However, IEHK is the management and controlling shareholder of the Company and therefore is a connected person of the Company. IEHK is an investment holding company incorporated in Hong Kong and one of its major assets is the interest in 1,352,130,000 Shares. IEHK is wholly owned by Inspur Group Limited. Inspur Group Limited is beneficially owned as to approximately 38.88% by 山東省國有資產控股公司 (Shandong State-owned Asset Investment Holdings Co., Ltd, of which the main activity is the management of state-owned assets), approximately 19.99% by 英大國際信託有限責任公司 (Yingda International Trust Co., Ltd, of which the main activity is investment as trustees), approximately 16.13% by 濟南裕澤資訊科技有限公司 (Jinan Yuze Information Technology Limited, of which the main activity is investment holding) and 25% by 山東德盛資訊科技發展有限公司 (Shandong Desheng Information Technology Limited, of which the main activity is investment holding). Accord Star is an investment holding company incorporated in the British Virgin Islands and is beneficially owned by Mr. Eric Kong Lee. Save for its investment in the Target, Accord Star is not engaged in other business activities.

Assets to be acquired

Pursuant to the Acquisition Agreement, the assets to be acquired by the Company represent the entire issued share capital of the Target which is owned by Accord Star as to 66% and IEHK as to 34%. As IEHK is the founding shareholder of the Target, IEHK has contributed a sum of capital of amount US$1,724,599.52 (equivalent to approximately HK$13,451,876) in respect of its 34% equity interest in the Target.

Consideration

The Consideration of HK$194,835,000 (after adjustment made to the amount initially set at HK$182,250,000, details of adjustment are set out in the next paragraph headed "Adjustment on Consideration") which shall be settled on the Completion in the following manner:

(i) as to HK$66,243,900 ("**Consideration Payment**") by cash payment to IEHK;

(ii) as to HK$70,140,600 by issue and allotment of 51,471,029 Consideration Shares at the issue price of HK$1.36272 per Share to Accord Star (or its designated nominee);

(iii) as to HK$58,450,500 by issue of Convertible Notes to Accord Star in the following manner:

	Principal amount *(HK$)*
2008 Convertible Notes	HK$29,225,250
2009 Convertible Notes	HK$29,225,250
Total amount	HK$58,450,500

(a) **Adjustment on Consideration**

The Consideration is subject to adjustments as follows :

(i) if the actual audited consolidated net profit after tax and minority interest of the Target (including the results of its subsidiaries) for the year ended 31 December 2007 (based on the generally accepted accounting principles in Hong Kong) is less than HK$12,150,000, the Consideration (including the Consideration Payment, the Consideration Shares and the Convertible Notes maintaining their respective percentages of 34%, 36% and 30% of the Consideration) shall be reduced to such an extent that the adjusted Consideration shall be equal to 15 times of the aforesaid profit; and

(ii) if the actual audited consolidated net profit after tax and minority interest of the Target (including the results of its subsidiaries) for the year ended 31 December 2007 (based on the generally accepted accounting principles in Hong Kong) is more than HK$12,150,000, the Consideration (including the Consideration Payment, the Consideration Shares and the Convertible Notes maintaining their respective percentages of 34%, 36% and 30% of the Consideration) shall be increased to such an extent that the adjusted Consideration shall be equal to 15 times of aforesaid profit up to a maximum cap of HK$205,000,000.

The actual audited consolidated net profit after tax and minority interest of the Target (including the results of its subsidiaries) for the year ended 31 December 2007 amounted to approximately HK$12,989,000, as shown in the Target's relevant audited consolidated financial statements. Pursuant to the terms of the Acquisition Agreement, the Consideration was adjusted to the sums of HK$194,835,000.

The Consideration was arrived at arm's length negotiation between the parties to the Acquisition Agreement with reference to, among other things, the consolidated net profit after tax and minority interest of the Target for the year ended 31 December 2007 as shown in the management accounts of Target (at the price earning ratio of 15 times) and the reasons set out in the paragraph headed "Reasons for and benefits derived from the Acquisition" below. 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 Independent Shareholders as a whole.

(b) **Consideration Shares**

The Consideration Shares will be issued at the issue price of HK$1.36272 per Consideration Share which represents:

(i) a premium of approximately 25.02% to the closing price of HK$1.09 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 3.23% to the closing price of HK$1.32 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(iii) a premium of approximately 2.46% to the average closing price of HK$1.33 per Share as quoted on the Stock Exchange for the last five trading days prior to and including the Last Trading Day.

The number of Consideration Shares to be issued will be 51,471,029, representing approximately 1.70% of the existing issued share capital of the Company as at the Latest Practicable Date, 1.67% of the Company's issued share capital as enlarged by the issue of Consideration Shares and 1.65% of the Company's issued share capital as enlarged by the issue of Consideration Shares and full conversion of the Convertible Notes (number of Conversion Shares being 42,892,524).

The Consideration Shares will be issued to Accord Star (or its designated nominee) which has undertaken that the total number of Consideration Shares disposed of on or before 13 October 2008 will not exceed 35% of the original number of Consideration Shares.

An application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when issued on Completion, will rank *pari passu* in all respects with the existing Shares in issue.

(c) **Convertible Notes**

Pursuant to the Acquisition Agreement, the number of Conversion Shares shall be determined as follows:

(i) ***2008 Convertible Notes***

Case 1: if NP08 is equal to or more than NP08 Target, then:

$$\text{No. of Conversion Shares} = \frac{\text{Principal Amount}}{\text{Benchmark Price}}$$

which is equal to 21,446,262 Shares (based on the principal amount of HK$29,225,250) representing 0.71% of the existing issued share capital of the Company and 0.70% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares in respect of the 2008 Convertible Notes and the conversion price will be equal to the Benchmark Price of HK$1.36272 per Share.

Case 2: if NP08 is less than NP08 Target, then:

$$\text{No. of Conversion Shares} = \frac{\text{Principal Amount}}{\text{Benchmark Price}} - \frac{15 \times (\text{NP08 Target} - \text{NP08})}{\text{Benchmark Price}}$$

subject to the maximum limit of 21,446,262 Shares (based on the principal amount of HK$29,225,250) representing 0.71% of the existing issued share capital of the Company and 0.70% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares in respect of the 2008 Convertible Notes (or in other words, the conversion price will be equal to the Benchmark Price of HK$1.36272 per Share).

Where

Principal Amount = the principal amount of the 2008 Convertible Notes

Benchmark Price = HK$1.36272, same as the issue price of the Consideration Shares

NP07 = the actual audited consolidated net profit after tax and minority interest of the Target (including the results of its subsidiaries) for the year ended 31 December 2007 which is approximately HK$12,989,000

NP08 = the actual audited consolidated net profit after tax and minority interest of the Target (including the results of its subsidiaries) for the year ending 31 December 2008

NP08 Target = 150% x NP07

(ii) ***2009 Convertible Notes***

Case 1 : if NP09 is equal to or more than NP09 Target, then:

$$\text{No. of Conversion Shares} = \frac{\text{Principal Amount}}{\text{Benchmark Price}}$$

which is equal to 21,446,262 Shares (based on the principal amount of HK$29,225,250) representing 0.71% of the existing issued share capital of the Company and 0.70% of the issued share capital of the Company as enlarged by the issued of the Conversion Shares in respect of the 2009 Convertible Notes and the conversion price will be equal to the Benchmark Price of HK$1.36272 per Share.

Case 2 : if NP09 is less than NP09 Target, then :

$$\text{No. of Conversion Shares} = \frac{\text{Principal Amount}}{\text{Benchmark Price}} - \frac{15 \times (\text{NP09 Target} - \text{NP09})}{\text{Benchmark Price}}$$

subject to the maximum limit of 21,446,262 Shares (based on the principal amount of HK$29,225,250) representing 0.71% of the existing issued share capital of the Company and 0.70% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares in respect of the 2009 Convertible Notes (or in other words, the conversion price will be equal to the Benchmark Price of HK$1.36272 per Share).

Where

Principal Amount = the principal amount of the 2009 Convertible Note

Benchmark Price = HK$1.36272, same as the issue price of the Consideration Shares

NP09 = the actual audited consolidated net profit after tax and minority interest of the Target (including the results of its subsidiaries) for the year ending 31 December 2009

NP09 Target = 225% x NP07 (as defined above)

The number of the Conversion Shares under the Convertible Notes, if fully converted at the conversion price of the Benchmark Price (same as the issue price of Consideration Share) will be 42,892,524, representing approximately 1.42% of the existing issued share capital of the Company as at the Latest Practicable Date, 1.40% of the issued share capital as enlarged by the issue of Conversion Shares only and 1.37% of the issued share capital as enlarged by the issue of Consideration Shares (being 51,471,029 Shares) and full conversion of the Convertible Notes.

The other material terms of the Convertible Notes to be issued as at Completion under the Acquisition Agreement are set out as below:

Issuer:	The Company
Holder:	Accord Star
Principal Amount :	(a) HK$29,225,250 for 2008 Convertible Notes; and
	(b) HK$29,225,250 for 2009 Convertible Notes.
Maturity :	30 months after the issue date
Interest :	Non-interest bearing
Transferable :	Not transferable except with the consent of the Company
Conversion Period :	(a) 2008 Convertible Note - at any time from the second date after the issue of the auditors' report on the financial statements of the Target for the year ending 31 December 2008 to the maturity date; and

	(b) 2009 Convertible Note - at any time from the second date after the issue of the auditors' report on the financial statements of the Target for the year ending 31 December 2009 to the maturity date.
Redemption at maturity:	The holder of the Convertible Notes may request the Company to redeem the outstanding Convertible Notes upon maturity and the amount payable by the Company is equal to Benchmark Price x No. of Conversion Shares (as determined above)
Adjustment to the number of Conversion Shares:	The initial number of Conversion Shares is subject to usual adjustments due to change in capital structure of the Company (including share consolidation, share subdivision and capitalisation issue and other similar corporate actions) to ensure fair and reasonable treatment to the holders of the Convertible Notes.

The Conversion Shares, when issued on the conversion of the Conversion Notes, will rank *pari passu* in all respects with the existing Shares in issue.

The Convertible Notes is not transferable unless with the consent of the Company and is not to be listed on the Stock Exchange or any other exchange and no application to list the Convertible Notes will be made to the Stock Exchange or any other exchange. In case any part or the whole of the Convertible Notes are proposed to be transferred to a connected person of the Company, the Company will notify the Stock Exchange of such transfer.

An application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Notes.

Conditions precedent and Completion

The Completion of the Acquisition Agreement is conditional upon having been fulfilled or waived (limited to conditions (iv) and (v) below) by the Purchaser on or before 30 September 2008 or such later date as agreed by the parties to the Acquisition Agreement:

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

(ii) the Company having satisfied with the results of due diligence exercise to be carried out by it on Target Group;

(iii) the GEM Listing Committee of the Stock Exchange having granted (whether conditionally or unconditionally) the listing of, and permission to deal in, the Consideration Shares and Conversion Shares under exercise of the conversion rights attaching to the Convertible Notes;

(iv) auditors' report on the consolidated financial statements of Target for the year ended 31 December 2007 having been issued to the satisfaction of the Company;

(v) (save for having been disclosed) the warranties given by the Vendors in the Acquisition having not been breached;

(vi) (if necessary) all relevant approvals and consents or registration and filings for the Acquisition having been obtained or completed.

Completion of the Acquisition Agreement is expected to take place within 30 days after the fulfillment of all the conditions precedent or such other date as agreed by the parties to the Acquisition Agreement). Upon Completion, the Target will become a wholly owned subsidiary of the Group and the Completion (including issue of Consideration Shares and Convertible Notes) will not result in a change of control of the Company.

At the Latest Practicable Date, none of the conditions precedent above has been fulfilled.

REASONS FOR AND BENEFITS DERIVED FROM THE ACQUISITION

In recent years, the software outsourcing business in the PRC has witnessed remarkable growth. The PRC will develop into one of the largest country in the software outsourcing business. Both the double-digit percentage growth in the Target Group's annual revenue and net profit in the year 2007 have demonstrated the effect of the promising prospect of the software outsourcing business. In addition, after several years of development, the Target Group has grown into competent and leading enterprise in the software outsourcing business in the PRC. Through synergy of becoming members of the Group, the Target Group can develop and strengthen the strategic business relationship with the existing business partners of the Group, resulting in gaining long-term clients for sustainable growth. Also, the current management team enjoys solid and extensive experience in software product development and outsourcing management.

In view of the above, the Directors are of the view that the Acquisition Agreement and the transactions contemplated thereunder are in the interest of the Company and the Independent Shareholders as a whole. The Directors also consider that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable.

FINANCIAL EFFECT OF THE ACQUISITION

After Completion, the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group. As shown in Appendix III to this circular, the Acquisition would lead to an increase in non-current assets of about HK$180 million, a decrease in current assets of about HK$49 million, an increase in current liabilities of about HK$3 million, and an increase in non-current liabilities of about HK$44 million, all resulting in a net increase in equity of about HK$85 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.

INFORMATION ON THE GROUP AND TARGET GROUP

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 Target is an investment holding company incorporated in the Cayman Islands and its subsidiaries are principally engaged in the software outsourcing in Hong Kong, the PRC, Japan and the United States of America and other overseas markets.

Upon completion of the Acquisition Agreement, each of the Target and its subsidiaries will become a subsidiary of the Company whose results, asset and liabilities will be consolidated in the consolidated accounts of the Company.

The following table sets out the consolidated turnover, consolidated net profit before tax and minority interest and consolidated net profit after tax and minority interest of Target based on its audited financial statements for the period from 13 March 2006 (date of incorporation) to 31 December 2006 and for the year ended 31 December 2007 (prepared under the generally accepted accounting principles in Hong Kong):

	For the year ended 31 December 2007 (Audited)	**For period from 13 March to 31 December 2006 (Audited)**
	HK'000	*HK'000*
Consolidated Turnover	84,292	49,374
Consolidated net profit before tax and minority interest	12,989	2,863
Consolidated net profit after tax and minority interest	12,989	2,863

The audited consolidated net assets of Target (after deduction of minority interest) amounted to approximately HK$31,369,000 as at 31 December 2007.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET GROUP

Set out in Appendix II to this circular is the accountant's report of the Target Group for the financial year ended 31 December 2007 and the period from 13 March 2006 (date of incorporation) to 31 December 2006. Below is the management discussion and analysis on the performance of the Target Group for each of the aforesaid year/period:

(i) For the period from 13 March 2006 (date of incorporation) to 31 December 2006

Results and dividends

The Target Group recorded a turnover of approximately HK$49.37 million with a gross profit of approximately HK$14.58 million. Profit attributable to the equity holders of the Target amounted to approximately HK$2.86 million. No dividend was declared for the period under review.

Segment Information

Geographical segment

The location of customers is the basis on which the Target Group reports its primary segment information. The revenue and results of the geographical segments for the period are as follows:

Geographical segment	Revenue	Segment results
PRC	31.3%	25.0%
Japan	36.1%	40.1%
USA	32.6%	34.9%
	100%	100%

The Japan segment is the largest segment in terms of the revenue and the most profitable segment.

Business segment

The Target Group's revenue in the period was substantially derived from a single segment of provision of outsourcing software development. No analysis by business segments is presented.

Cashflow

There was a total of net cash inflow of approximately HK$5.41 million which was mainly due to: (a) net cash inflow from operating activities of approximately HK$1.63 million; (b) net cash outflow from investing activities of approximately HK$8.43 million; and (c) net cash inflow from financing activities of approximately HK$12.21 million.

Borrowing and banking facilities

As at 31 December 2006, the Target Group did not have any outstanding bank loans and overdrafts. 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 HK$7.55 million. The current assets of approximately HK$25.1 million mainly comprised trade receivables of approximately HK$5.3 million, other receivables of approximately HK$2.9 million, related companies receivables of approximately HK$11.5 million and bank balances and cash of approximately HK$5.4 million. The current liabilities of approximately HK$17.6 million mainly comprised trade payables of approximately HK$1.7 million, other payables of approximately HK$5.6 million and related companies payables of approximately HK$10.3 million.

Capital structure

As at 31 December 2006, the issued and fully paid up share capital of the Target Group amounted to US$4,817,300, which were new shares issued and paid up during the period under review.

Charges on the Target Group's assets

As at 31 December 2006, there was no charge on the Target Group's assets.

Capital Commitment

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

Remuneration policies and employee information

As at 31 December 2006, the Target Group had 360 full time employees. Total staff costs (including directors' emoluments) amounted to approximately HK$19.59 million for the period under review. Employees were remunerated according to their capabilities, experience and performance which is under regular evaluation. Besides salaries, the Target Group also provided retirement benefits, medical and insurance schemes. The Target Group also provided staff training according to job requirements, covering technical aspects and general management skills.

Significant investments, material acquisitions and disposals

During the period under review, the Target Group acquired the entire equity interest in Langchao Worldwide (Shandong) Services Incorporation# 浪潮世科(山東)信息科技有限公司 for consideration comprising cash of approximately US$1.1 million and issue of 120,980,000 shares (nominal value US$0.01 per share) of the Target. Save as disclosed, the Target Group did not have any other significant investments, material acquisitions and disposals during the period under review and did not have any future plans for material investments or capital asset at the end of the period under review.

the English name is for identification purpose only

Gearing ratio

As at 31 December 2006, the Target Group's gearing ratio, is equal to zero as it did not have any borrowings.

Foreign exchange exposure

During the period under review, the members of the Target Group collected most of the revenue and incurred most of the expenditures in their respective functional currencies. As such, the Target Group's exposure to foreign exchange risk is insignificant as all of the Target Group's transactions are denominated in the functional currency of each individual member of the Target Group.

Contingent liabilities

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

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

Results and dividends

The Target Group recorded a turnover of approximately HK$84.29 million with a gross profit of approximately HK$28.65 million. Profit attributable to the equity holders of the Target amounted to approximately HK$13 million. No dividend was declared for the year.

Segment Information

Geographical segment

The location of customers is the basis on which the Target Group reports its primary segment information. The revenue and results of the geographical segments for the year are as follows:

Geographical segment	Revenue	Segment results
PRC	15.9%	6.9%
Japan	34.4%	35.2%
USA	49.7%	57.9%
	100%	100%

During the year, the USA segment has expanded into the largest segment in terms of revenue and results.

Business segment

The Target Group's revenue in the year was still substantially derived from a single segment of provision of outcourcing software development. No analysis by business segments is presented.

Cashflow

There was a total of net cash inflow of approximately HK$2.41 million which was mainly due to: (a) net cash inflow from operating activities of approximately HK$12.45 million; (b) net cash outflow from investing activities of approximately HK$11.39 million; and (c) net cash inflow from financing activities of approximately HK$1.35 million.

Borrowing and banking facilities

As at 31 December 2007, the Target Group did not have any outstanding bank loans and overdrafts. 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 HK$14.43 million. The current assets of approximately HK$17.64 million mainly comprised trade receivables of approximately HK$6.93 million, other receivables of approximately HK$2.72 million, related companies receivables of approximately HK$0.2 million and bank balances and cash of approximately HK$7.8 million. The current liabilities of approximately HK$3.21 million mainly comprised other payables of approximately HK$2.86 million.

Capital structure

As at 31 December 2007, the issued and fully paid up share capital of the Target Group amounted to US$5,072,351.53. During the year, new shares of US$255,051.53 have been issued and paid up.

Charges on the Target Group's assets

As at 31 December 2007, there was no charge on the Target Group's assets.

Capital Commitment

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

Remuneration policies and employee information

As at 31 December 2007, the Target Group had 420 full time employees. Total staff costs (including directors' emoluments) amounted to approximately HK$35.94 million for the year. Employees were remunerated according to their capabilities, experience and performance which is under regular evaluation. Besides salaries, the Target Group also provided retirement benefits, medical and insurance schemes. The Target Group also provided staff training according to job requirements covering technical aspects and general management skills.

Significant investments, material acquisitions and disposals

During the year, the Target Group acquired the remaining 49% equity interest in Langchao Worldwide (Qingdao) Services Incorporation# 浪潮世科(青島)信息科技有限公司 at consideration of US$151,257.52. Save as disclosed above, during the year, the Target Group did not have any other 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 2007, the Target Group did not have any gearing ratio as it did not have any borrowings.

Foreign exchange exposure

During the year under review, the members of the Target Group collected most of the revenue and incurred most of the expenditures in their respective functional currencies. As such, the Target Group's exposure to foreign exchange risk is insignificant as all of the Target Group's transactions are denominated in the functional currency of each individual member of the Target Group.

Contingent liabilities

As at 31 December 2007, the Target Group had no contingent liabilities.

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CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following illustrates the Company's shareholding structure, assuming there is no further change to the share capital of the Company: (i) as at the Latest Practicable Date; (ii) immediately upon the issue and allotment of the Consideration Shares; (iii) immediately upon the issue and allotment of the Consideration Shares and full conversion of the Convertible Notes at the Benchmark Price (without any change pursuant to the Acquisition Agreement); (iv) immediately upon the issue and allotment of the Consideration Shares, full conversion of the Convertible Notes at the Benchmark Price (without any change pursuant to the Acquisition Agreement), full conversion of the Preferred Shares and full exercise of the Options:

	As at the Latest Practicable Date		**Upon allotment and issue of the Consideration Shares**		**Upon allotment and issue of the Consideration Shares and full exercise of the Convertible Notes at the Benchmark Price**		**Upon allotment and issue of the Consideration Shares, full exercise of the Convertible Notes at the Benchmark Price, full conversion of the Preferred Shares and full exercise of Options**	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*
IEHK	1,352,130,000	44.62%	1,352,130,000	43.87%	1,352,130,000	43.27%	1,352,130,000	28.80%
Wang Miao *(Note 1)*	75,000,000	2.47%	75,000,000	2.43%	75,000,000	2.40%	95,000,000	2.02%
Wang Hung, Alex *(Note 1)*	75,000,000	2.47%	75,000,000	2.43%	75,000,000	2.40%	95,000,000	2.02%
Other Directors (who are Option holders) *(Note 3)*	—		—		—		80,000,000	1.70%
Accord Star	—		51,471,029	1.67%	94,363,553	3.02%	94,363,553	2.01%
Microsoft Corporation *(Note 2)*	—		—		—		1,171,397,795	24.95%
Option holders (not Directors) *(Note 3)*	—		—		—		278,150,000	5.93%
Other public shareholders	1,528,370,000	50.44%	1,528,370,000	49.60%	1,528,370,000	48.91%	1,528,370,000	32.57%
Total	3,030,500,000	100%	3,081,971,029	100%	3,124,863,553	100%	4,694,411,348	100%

Notes:

(1) Mr. Wang Miao is an executive Director and Mr. Wang Hung, Alex is a non-executive Director.

(2) Microsoft Corporation is the holder of the Preferred Shares.

(3) As at the Latest Practicable Date, there are outstanding 398,150,000 Options which entitle the holders to subscribe for 398,150,000 Shares. The outstanding Options comprise 20,000,000 Options granted to Mr. Wang Miao, 20,000,000 Options granted to Mr. Wang Hung, Alex, 80,000,000 Options to other Directors and 278,150,000 Options to other eligible non-Director participants to the share option schemes of the Company.

IMPLICATIONS UNDER THE GEM LISTING RULES

As certain relevant percentage ratios under Chapter 19 of the GEM Listing Rules for the Acquisition are more than 25% and less than 100%, the Acquisition constitutes a major acquisition on the part of the Company under the GEM Listing Rules. Since IEHK, being one of the Vendors and beneficially interested in 1,352,130,000 Shares (representing approximately 44.62% of the issued share capital of the Company), is the management and controlling shareholder of the Company under the GEM Listing Rules, the acquisition of 34% equity interest in the Target by the Company from IEHK also constitutes a connected transaction of the Company (the "**Connected Transaction**"). As such, the Acquisition Agreement and the transaction contemplated thereunder (including the issue of Consideration Shares, Convertible Notes, and Conversion Shares upon full conversion of the Convertible Notes) shall require the approval of Independent Shareholders' approval at the EGM by way of a poll pursuant to the GEM Listing Rules. IEHK, Accord Star and their ultimate beneficial owners and associates shall abstain from voting in respect of the proposed resolution approving the Acquisition at the EGM.

EGM

Set out on pages N-1 to N-3 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 10:00 a.m. on Monday, 30 June 2008 at which resolution will be proposed to approve, among others, the Acquisition Agreement and the transaction contemplated thereunder (including the issue of Consideration Shares, Convertible Notes, and Conversion Shares upon full conversion of the Convertible Notes).

The Acquisition Agreement is subject to, among other things, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. IEHK (including its ultimate beneficial owners and their respective associates) and Accord Star (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 concerned transactions. Other than the above, no other Shareholders have material interest in the above transactions and will abstain from voting at the EGM. As at the Latest Practicable Date, IEHK(including its ultimate beneficial owners and their respective associates) control or are entitled to control over the entire voting right in respect of their Shares and Accord Star (including its ultimate beneficial owners and their respective associates) was not interested in any Shares. Therefore, a total of 1,352,130,000 Shares (representing approximately 44.62% of the issued share capital of the Company and approximately 32.13% of the total voting rights of the holders of the Shares and Preferred 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 IEHK (including its ultimate beneficial owners and their respective associates) and Accord Star (including its ultimate beneficial owners and their respective associates); and (ii) no obligation or entitlement of each of IEHK (including its ultimate beneficial owners and their respective associates) and Accord Star (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 will be voted by way of a poll in the EGM.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and REXCPAITAL has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of REXCAPITAL containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 39 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 23 to 24 of this circular.

The Independent Board Committee, having taken into account the advice of REXCAPITAL, is of the opinion that the terms of the Acquisition Agreement to be fair and reasonable and are in the interest of the Company and the Independent Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at EGM.

In view of the above, the Board of Directors are of the opinion that the Acquisition is fair and reasonable and in the interests of the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at EGM.

ADDITIONAL INFORMATION

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

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

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INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

13 June 2008

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF LANGCHAO WORLDWIDE SERVICES LIMITED

We refer to the circular dated 13 June 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 Agreement and the transactions comtemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition Agreement, 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 5 to 22 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 25 to 39 of the Circular.

* *For identification purpose only*

Having taken into account of the advice of REXCAPITAL, we consider that the Acquisition Agreement is entered into upon normal commercial terms, 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 Independent 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

13 June 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 13 June 2008 (the "Circular"), of which this letter forms 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 5 May 2008, the Company entered into the Acquisition Agreement, pursuant to which, the Company has conditionally agreed to purchase and the Vendors, namely IEHK and Accord Star, have conditionally agreed to sell the entire issued share capital of the Target at a consideration of HK$182,250,000 (subject to adjustment). The Consideration has thereafter been adjusted to HK$194,835,000, details of such adjustment are set out in the section headed "**(a) Adjustment on Consideration**" in the Letter from the Board (the "Letter").

As stated in the Letter, since IEHK, being one of the Vendors and beneficially interested in 1,352,130,000 Shares (representing approximately 44.62% of the issued share capital of the Company), is the management and controlling shareholder of the Company under the GEM Listing Rules, the acquisition of 34% equity interest in the Target by the Company from IEHK constituted a connected transaction of the Company. As such, the Acquisition Agreement and the transaction contemplated thereunder (including the issue of Consideration Shares, Convertible Notes, and Conversion Shares upon full conversion of the Convertible Notes) shall require the approval of Independent Shareholders' approval at the EGM by way of a poll pursuant to the GEM Listing Rules. IEHK, Accord Star and their ultimate beneficial owners and their respective associates shall abstain from voting in respect of the proposed resolution approving the Acquisition at the EGM.

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 are 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:

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, the Target is an investment holding company incorporated in the Cayman Islands and its subsidiaries are principally engaged in the software outsourcing in Hong Kong, the PRC, Japan and the United States of America and other overseas markets. As at the Latest Practicable Date, the Target is owned by Accord Star and IEHK as to 66% and 34% respectively. As advised by the Company, the Group has not been conducting business in software outsourcing and the business of the Target will not compete with the existing business of the Group.

The following table sets out the consolidated turnover, consolidated net profit before tax and minority interest and consolidated net profit after tax and minority interest of the Target based on its audited financial statements for the period from 13 March 2006 (date of incorporation) to 31 December 2006 and for the year ended 31 December 2007 (prepared under the generally accepted accounting principles in Hong Kong):

	For the year ended 31 December 2007 (Audited) *HK'000*	**For period from 13 March to 31 December 2006 (Audited)** *HK'000*
Consolidated Turnover	84,292	49,374
Consolidated net profit before tax and minority interest	12,989	2,863
Consolidated net profit after tax and minority interest	12,989	2,863

As set out in Appendix II in the Circular, the audited consolidated net assets of the Target (after deduction of minority interest) amounted to approximately HK$31.37 million as at 31 December 2007.

As disclosed in the Letter, the software outsourcing business in the PRC has witnessed remarkable growth in recent years. The PRC will develop into one of the largest country in the software outsourcing business. Both the double-digit growth in the Target Group's annual revenue and net profit in the year 2007 have demonstrated the effect of the promising prospect of the software outsourcing business. In addition, after several years of development, the Target Group has grown into competent and leading enterprise in the software outsourcing business in the PRC.

Through synergy of becoming members of the Group, the Target Group can develop and strengthen the strategic business relationship with the existing business partners of the Group, resulting in gaining long-term clients for sustainable growth. Also, the current management team enjoys solid and extensive experience in software product development and outsourcing management.

We have reviewed the financial statements of the Target Group and enquired and discussed with the management of the Company in respect of, among others, the business, the customers network and the positioning of the Target Group in its industry. We have also reviewed the financial statements of the Group and note from the annual report 2007 of the Group (the "AR 2007") that the Group will seek to acquire domestic businesses with excellent track records to diversify its business portfolio, source of income and risk profile. In addition, we have search through Internet for information in relation to, among others, the industry of software outsourcing in PRC and note the growing trend of the software outsourcing business in PRC and, from the website of Ministry of Information Industry of the PRC (www.mii.gov.cn), that such software outsourcing business is one of the major development issues under the 信息產業 "十一五"規劃 ("The Eleventh Five Year Plan for the Information Industry", the unofficial English translation is for identification purposes only) which is considered by the Ministry of Information Industry of the PRC as the development blueprint of the information technology industry in PRC for the next few years.

Having considered (i) the Acquisition provides opportunities to the Company to enhance its revenue sources and therefore diversify its business risks; (ii) the Target Group has a solid existing customer network; (iii) the profitability of the Target Group for the period from 13 March to 31 December 2006 and for the year ended 31 December 2007; (iv) the potential synergies to be realized through the Acquisition such that the Company and the Target Group could share the expertise and the client network with each other; (v) align with the business strategy of the Group as stated in AR 2007; and (vi) the upward increasing trend and potential development of the software outsourcing business in 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 HK$194,835,000 (after adjustments made to the amount initially set at HK$182,250,000) shall be settled (i) as to HK$66,243,900 to IEHK by cash payment; (ii) as to HK$70,140,600 by issue and allotment of 51,471,029 Consideration Shares at the issue price of HK$1.36272 per Share to Accord Star (or its designated nominee); and (iii) as to HK$58,450,500 by issue of zero-coupon Convertible Notes in aggregate principal amounts of HK$58,450,500 with 30-month maturity to Accord Star.

As set out in the Letter, the Consideration was arrived at arm's length negotiation between the parties to the Acquisition Agreement with reference to, among other things, the consolidated net profit after tax and minority interest of the Target for the year ended 31 December 2007 as shown in the management accounts of Target (at the price earning ratio (the "PER") of 15 times) and the reasons set out in the paragraph headed "**REASONS FOR AND BENEFITS DERIVED FROM THE ACQUISITION**" in the Letter. The Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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 and Main Board) engaged in similar businesses of the Target Group including, but not limited to, software outsourcing. 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 PERs are based on their respective market capitalization determined in according to the Stock Exchange as at 5 May 2008, 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 the Target and their respective PERs 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.

Table 1

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	10.16
SinoCom Software Group Ltd. (Stock code: 299)	Provide outsourcing software development services to customers in the IT sector in Japan	13.74
Automated Systems Holdings Ltd. (Stock code: 771)	Business of systems integration and the supply of computers and associated products, Internet/Intranet networking & provision of engineering services & software services in HK, Macau & Taiwan	10.54

Comparables	Principal business	PER (times)
Kantone Holdings Ltd. (Stock code: 1059)	Sales of general systems products, provision of services and software licensing, leasing of systems products and investments in e-commerce projects and holding strategic investments in technology product development companies.	4.34
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	25.60 (Note)
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	11.48 (Note)
Jiangsu Nandasoft Co. Ltd. — H Shares (Stock code: 8045)	Sales of computer software products; systems integration services including sales of computer hardware products and equipment and provision of IT consulting services; and import and export of IT related products and equipment	38.96 (Note)
FlexSystem Holdings Limited (Stock code: 8050)	Development and sale of software products and provision of application software services	35.79
Chinasoft International Ltd. (Stock code: 8216)	Provision of solutions, IT outsourcing, IT consulting and training services, and sale of standalone software and hardware products in the PRC	8.71 (Note)
	Range:	4.34 to 38.96
	Mean:	17.70
	Target:	15

Source: www.hkex.com.hk

Note: For calculation purposes, the earning per share recorded in RMB will be converted into HK$ under the exchange rate of HK$1.0 to RMB 0.90.

As indicated in the above table, the PER based on the consolidated net profit after tax and minority interest of the Target for the year ended 31 December 2007, being 15 times, is below the mean and fall within the range from 4.34 times to 38.96 times of the PERs of the Comparables.

Having considered (i) the Consideration represents a PER which is below the mean and fall within the range of the Comparables PERs; (ii) the audited net profit after tax and minority interest of the Target for the year ended 31 December 2007 was approximately HK$12,989,000 (based on the accounting principles generally accepted in Hong Kong) as set out in the Letter; (iii) the PER of the Company based on closing price per Share on the date of the Acquisition Agreement and the latest information available on the website of the Stock Exchange is approximately 89.19 times; (iv) the Consideration Payment paid to IEHK for its 34% interest in the Target and the aggregate amount of the Consideration Shares and the Convertible Notes paid to Accord star for its 66% interest in the Target represents 34% and 66% of the Consideration respectively; and (v) the Consideration Payment, the Consideration Shares and the Convertible Notes will maintain at their respective percentages of 34%, 36% and 30% of the Consideration under the adjustment mechanism of the Consideration, we consider the Consideration and the adjustments of the Consideration to the extent that the adjusted Consideration shall be equal to a PER of 15 times (including the maximum cap of Consideration) are fair and reasonable so far as the Independent Shareholders are concerned.

(a) ***Consideration Payment***

As advised by the Company, the different payment mechanisms to IEHK and Accord Star under the Acquisition Agreement are under arm's length negotiation between the relevant parties. In particular, the CB Adjustments (as defined below) under the payment mechanism to Accord Star is for the purpose to secure the net profit of the Target for the years 2008 and 2009 given Accord Star is the major operator of the Target Group immediately before the Acquisition. As set out in the Company's annual report 2007 (the "AR 2007"), the Group has recorded bank balances and cash of approximately HK$167.24 million as at 31 December 2007. Given that (i) the Consideration Payment made to IEHK from the Company would avoid further dilution from the issue and allotment of the Consideration Shares and the Conversion Shares upon exercised the Convertible Notes in full; (ii) the Group has sufficient cash balance for the Consideration Payment and (iii) the payment mechanism is a commercial decision made and agreed between the Company and the respective Vendor, we consider the Consideration Payment is fair and reasonable.

(b) ***Consideration Shares and Convertible Notes***

Consideration Shares

As part of the Consideration payable by the Company under the Acquisition Agreement, the Consideration Shares to be issued at the Issue Price represents:

(i) a premium of approximately 25.02% to the closing price of HK$1.09 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 3.23% to the closing price of HK$1.32 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(iii) a premium of approximately 2.46% to the average closing price of HK$1.33 per Share as quoted on the Stock Exchange for the last five trading days prior to and including the Last Trading Day.

As advised by the Company, the Issue Price was determined after arm's length negotiations among the parties with reference to the recent prevailing market price.

As set out in the Letter, the number of Consideration Shares to be issued will be 51,471,029, representing approximately 1.70% of the existing issued share capital of the Company as at the Latest Practicable Date, 1.67% of the Company's issued share capital as enlarged by the issue of Consideration Shares and 1.65% of the Company's issued share capital as enlarged by the issue of Consideration Shares and the Conversion Shares upon full conversion of the Convertible Notes (number of Conversion Shares being 42,892,524).

In order to assess the fairness and reasonableness of the terms of Consideration Shares, we have, on the best effort basis, looked into 14 transactions announced during the period from 1 February 2008 to 5 May 2008, being the date of the Acquisition Agreement, by companies which listed on the Stock Exchange in relation to acquisition of assets by issue of consideration shares (the "Share Comparables"). As the terms of the Share Comparables are determined under similar market conditions and sentiments as the Consideration Shares, we consider the Share Comparables are fair and representative samples.

Table 2

Name of listed company (stock code)	Date of announcement	Amount of the consideration shares	Approximate premium/ (discount) of issue price to the closing price prior to the release of the announcement	Approximate premium/ (discount) of issue price to the average closing price for the last five consecutive trading days prior to the release of the announcement
	2008	*HK$' million*	%	%
Ajisen (China) Holdings Limited (538)	28 April	207.7	(8.53)	0.00
Champion Technology Holdings Limited (92)	23 April	320	1.71	0.34
Wasion Meters Group Limited (3393)	18 April	114.1	20.00	21.00
Asian Union New Media (Group) Limited (419)	9 April	420	48.15	56.25
China Mengniu Diary Company Limited (2319)	8 April	2,906.9	2.29	(2.05)

Name of listed company (stock code)	Date of announcement	Amount of the consideration shares	Approximate premium/ (discount) of issue price to the closing price prior to the release of the announcement	Approximate premium/ (discount) of issue price to the average closing price for the last five consecutive trading days prior to the release of the announcement
	2008	*HK$' million*	%	%
Wang Sing International Holdings Group Limited (2389)	25 March	14.7	(16.00)	(14.30)
China Primary Resources Holdings Limited (8117)	17 March	158.8	20.90	20.90
Vitop Bioenergy Holdings Limited (1178)	13 March	5	(10.28)	26.89
Mongolia Energy Corporation Limited (276)	10 March	100	(3.38)	(2.65)
Nubrands Group Holdings Limited (835)	19 February	Unable to ascertain as at the Latest Practicable Date	(1.96)	(6.02)
Wah Nam International Holdings Limited (159)	12 February	103.5	(45.45)	(43.40)
Mandarin Entertainment (Holdings) Limited (9)	6 February	70	(27.27)	(24.81)
Sunny Global Holdings Limited (1094)	5 February	244	(88.20)	(86.60)
Sungreen International Holdings Limited (8306)	4 February	105.6	5.8	2.2
Highest			**48.15**	**56.25**
Lowest			**(88.20)**	**(86.60)**
Average			**(7.30)**	**(3.73)**
The Company			**3.23**	**2.46**

Source: www.hkex.com.hk

Based on the above illustration, the premium/ (discount) represented by the issue price per consideration share issued by respective Share Comparables over/ (to) their respective closing prices on the last trading day immediately prior to the release of the relevant announcements ranged from a discount of approximately 88.20% to a premium of the approximately 48.15% and with an average discount of 7.30%. Upon comparison, we note that the premium represented by the Issue Price over the closing price on the Last Trading Day falls within the relevant ranges of the Share Comparables and is higher than the average of the Share Comparables.

In light (i) the Issue Price represents a premium to the recent prevailing closing prices of the Shares; and (ii) the premium represented by the Issue Price over the closing price on the Last Trading Day and the average closing price for the last five consecutive trading days up to and including the Last Trading Day falls within the relevant ranges of the Share Comparables and above the averages of the Share Comparables, we consider the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

Convertible Notes

Pursuant to the Acquisition Agreement, the Convertible Notes (comprising 2008 Convertible Notes and 2009 Convertible Notes) in aggregate principal amount of HK$58,450,500 will be issued by the Company to Accord Star as part of the Consideration. The number of Conversion Shares and its adjustments (the "CB Adjustments") have been set out under the subsection headed "**(c) Convertible Notes**" under the section headed "**Consideration**" in the Letter.

Under the CB Adjustments, for each of the year 2008 and 2009, the maximum number of Conversion Shares to be issued will be 21,446,262 Conversion Shares and the monetary amount of 2008 Convertible Notes and 2009 Convertible Notes in aggregate will be HK$58,450,500, representing 30% of the total Consideration. Whereas, if there is no profit recorded for each of the year 2008 and 2009 for the Target, no Conversion Shares will be issued and the monetary amount of the Convertible Notes will be zero. Accordingly, the total Consideration for the Acquisition will be adjusted to HK$136,384,500 (comprising Consideration Payment and the Consideration Shares only), representing 70% of the Consideration before the CB Adjustments.

In view that the 2008 Convertible Notes and the 2009 Convertible Notes will only be issued after the issue of the auditors' reports on the financial statements of the Target for the years ending 31 December 2008 and 2009 respectively, we consider the issue of the Convertible Notes represent a deferred payment for the Acquisition to secure the net profit of the Target will achieve the NP08 Target and the NP09 Target. Such deferred payment will not be made to Accord Star in the event that the Target is not profit making for the each of the two years 2008 and 2009, and the Consideration will become HK $136,384,500, representing a PER of 10.5 times with reference to the net profit of the Target after tax and minority interest for the year 2007. As shown in Table 1, the PER of 10.5 times is far below the mean and fall within the range of the PERs of the Comparables and there are only 3 Comparables recorded with PERs less than 10.5 times among all Comparables, we consider the PER of 10.5 times is relatively low in the software outsourcing industry and is acceptable.

Given (i) the Consideration was determined with reference to the PER of 15 times which has been considered to be fair and reasonable as mentioned above in this section; (ii) the CB Adjustments to secure the net profit of the Target for the two years 2008 and 2009; (iii) the Consideration after the CB Adjustments (if any) will not exceeds the Consideration before the CB Adjustments of HK$194,835,000 under any circumstances, we consider the CB Adjustments (including the adjustment by the factor 15) is fair and reasonable and is in the interest of the Company and its shareholders as a whole.

Other principal terms of the Convertible Notes under the Acquisition Agreement are set out below:

Principal Amount :	(a) HK$29,225,250 for 2008 Convertible Notes; and (b) HK$29,225,250 for 2009 Convertible Notes.
Maturity :	30 months after the issue date
Interest :	Non-interest bearing
Transferable :	Not transferable except with the consent of the Company
Conversion Period :	(a) 2008 Convertible Note - at any time from the second date after the issue of the auditors' report on the financial statement of the Target for the year ending 31 December 2008 to the maturity date; and (b) 2009 Convertible Note - at any time from the second date after the issue of the auditors' report on the financial statement of the Target for the year ending 31 December 2009 to the maturity date.
Redemption at maturity:	The holder of the Convertible Notes may request the Company to redeem the outstanding Convertible Notes upon maturity and the amount payable by the Company is equal to: Benchmark Price x No. of Conversion Shares (as determined above)
Adjustment to the number of Conversion Shares :	The initial number of Conversion Shares is subject to usual adjustments due to change in capital structure of the Company (including share consolidation, share subdivision and capitalisation issue and other similar corporate actions) to ensure fair and reasonable treatment to the holders of the Convertible Notes.

The conversion price of HK$1.36272 (the "Conversion Price") which equal to the Benchmark Price was determined after arm's length negotiations among the parties with reference to the Issue Price.

For the purpose of comparison, we have identified, on the best effort basis, 14 transactions (the "CB Comparables") announced during the period from 1 February 2008 to 5 May 2008, being the date of the Acquisition Agreement, by companies which listed on the Stock Exchange in relation to acquisition of assets by issue of convertibles notes. As the terms of the CB Comparables are determined under similar market conditions and sentiments as the Convertible Bonds, we consider the CB Comparables are fair and representative samples.

Table 3

Name of listed company (stock code)	Date of announcement	Approximate principal amount of the convertible notes	Interest	Maturity	Approximate premium/ (discount) of conversion price to the closing price prior to the release of the announcement	Approximate premium/ (discount) of conversion price to the average closing price for the last five consecutive trading days prior to the release of the announcement
	2008	*HK$' million*	*%*	*Years*	*%*	*%*
Xian Yuen Titanium Resources Holdings Limited (353)	18 April	960.78	0	5	(1.96)	0.40
Global Solution Engineering Limited (8192)	10 April	99	0	5	(13.80)	(3.80)
Tradeeasy Holdings Limited (8163)	28 March	776.88	0	3	(64.29)	(45.05)
The Sun's Group Limited (988)	28 March	Less than HK$1,400 million	2	3	34.00	40.00
Wang Sing International Holdings Group Limited (2389)	25 March	195.5	0	2	(8.00)	(6.10)
Smart Rich Energy Finance (Holdings) Ltd. (1051)	5 March	117	1	3	12.32	9.62
Riche Multi-Media Holdings Limited (764)	4 March	Bond I: 72 Bond II: 72	5 5	10 10	3.23 3.23	7.38 7.38
Fulbond Holdings Limited (1041)	29 February	121	6	2	(19.63)	(6.52)

Name of listed company (stock code)	Date of announcement	Approximate principal amount of the convertible notes	Interest	Maturity	Approximate premium/ (discount) of conversion price to the closing price prior to the release of the announcement	Approximate premium/ (discount) of conversion price to the average closing price for the last five consecutive trading days prior to the release of the announcement
	2008	*HK$' million*	*%*	*Years*	*%*	*%*
Nubrands Group Holdings Limited (835)	19 February	Unable to ascertain as at the Latest Practicable Date	0	5	(1.96)	(6.02)
Henry Group Holdings Limited (859)	19 February	35.72	1.68	August 2009 and February 2012	90.00	86.30
Challenger Group Holdings Limited (8203)	18 February	170	1	5	85.71	109.68
Wah Nam International Holdings Limited (159)	12 February	406.5	0	5	(45.45)	(43.40)
Mandarin Entertainment (Holdings) Limited (0009)	6 February	70	0	3.5	(27.27)	(24.81)
Sungreen International Holdings Limited (8306)	4 February	756.9	3	7	5.80	2.20
Highest					**90.00**	**109.68**
Lowest					**(64.29)**	**(45.05)**
Average					**3.48**	**8.56**
The Company		**54.68**	**0**	**2.5**	**3.23**	**2.46**

Source: www.hkex.com.hk

Based on the above illustration, the premium/ (discount) represented by the conversion price per share of the convertible notes issued by respective listed companies over/ (to) their respective closing prices on the last trading day immediately prior to the release of the relevant announcements ranged from a discount of approximately 64.29% to a premium of the approximately 90%. Upon comparison, we note that the premium represented by the Conversion Price over the closing price on the Last Trading Day falls within the relevant range of the CB Comparables, and is slightly lower than the average of such relevant range.

In light of (i) the above; (ii) the CB Adjustments; (iii) the Conversion Price is equivalent to the Issue Price; and (iv) the Convertible Notes are non-interest bearing, we are of the view that the terms of the Convertible notes are on normal commercial terms, fair and reasonable and, together with the issue of the Convertible Notes as partial payment of the Consideration, are in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

(i) **Net asset value**

As reported in the AR 2007, the audited consolidated net asset value of the Group as at 31 December 2007 was approximately HK$283.60 million. As shown in the unaudited pro forma financial information of the Enlarged Group set out in Appendix III, the net asset of the value of the Enlarged Group will be increased by approximately HK$70.14 million to approximately HK$353.74 million upon completion of the Acquisition.

(ii) **Earnings**

As mentioned above, upon completion of the Acquisition, the Target Group will be consolidated into the Group. In view of 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 AR 2007, the Group recorded an audited bank balances and cash of approximately HK$167.24 million and gearing ratio of 0.62 (as defined by total liabilities divided by total assets) as at 31 December 2007. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix III, the gearing ratio (as defined by total liabilities divided by total assets) upon completion of the Acquisition will be approximately 0.60. In view of such position, we consider that the Acquisition would not have significant impact to the gearing level of the Group.

POTENTIAL DILUTION EFFECT TO THE PUBLIC SHAREHOLDERS

The table showing the effect of the Acquisition on the shareholding structure of the Company has been set out under the section headed "**CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY**" in the Letter.

As shown in the shareholding table, the shareholding of the other public Shareholders will decreased from approximately 50.44% to approximately 49.60% upon following the allotment and issue of the Consideration Shares and will down further to approximately 48.91% following the allotment and issue of the Consideration Shares and the Conversion Shares upon exercised the Convertible Notes in full.

Having considered that (i) the Acquisition corresponds with the overall objective of the Group; (ii) enhance the Group's financial performance and therefore optimizing Shareholders' interests in the Company; and (iii) by satisfying partial Consideration by issue of the Consideration Shares and the Convertible Notes to Accord Star, the Group can preserve the cash position and at the same time strengthen its equity base, we consider the dilution effect is immaterial and is acceptable so far as the Independent Shareholders are concerned.

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 recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution 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 2006 and 2007 in respect of the audited consolidated financial information of the Group for each of the three years ended 31 December 2007 (their auditors' reports were not qualified):

RESULTS

	For the year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Turnover	729,561	870,619	922,174
Profit before taxation	29,158	27,917	42,848
Taxation	(4,943)	(2,770)	(2,558)
Profit for the year	24,215	25,147	40,290
Attributable to:			
Equity holders of the Company	24,215	25,160	38,801
Minority interests	—	(13)	1,489

ASSETS AND LIABILITIES

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Total assets	288,939	433,346	743,654
Total liabilities	(167,234)	(268,501)	(460,058)
	121,705	164,845	283,596

TOTAL EQUITY

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Equity attributable to equity holders of the parent	121,705	158,127	274,654
Minority Interests	—	6,718	8,942
	121,705	164,845	283,596

The following is the audited financial statements of the Group for the year ended 31 December 2007 together with accompanying notes (the auditors' report on which is not qualified) as extracted from the Company's 2007 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 2007 annual report.

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2007

		2007	**2006**
	NOTES	*HK$'000*	*HK$'000*
Revenue	7	922,174	870,619
Cost of sales		(829,508)	(820,704)
Gross profit		92,666	49,915
Other income	9	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	10	(2,558)	(2,770)
Profit for the year	11	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	14	7,715	15,333
Earnings per share	15		
Basic		HK1.48 cents	HK0.99 cents
Diluted		HK1.32 cents	HK0.99 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTE	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	3,777	1,762
Goodwill	17	30,542	—
Other intangible assets	19	12,288	—
Interests in associates	20	71,148	58,512
		117,755	60,274
Current assets			
Inventories	21	56,341	45,297
Trade receivables	22	59,408	13,787
Prepayments, deposits and other receivables	22	13,689	8,299
Amounts due from customers for contract work	23	6,136	—
Amount due from an associate	22	—	58
Amounts due from fellow subsidiaries	22	37,625	15,523
Amount due from ultimate holding company	22	285,171	141,053
Taxation recoverable		293	897
Bank balances and cash	22	167,236	148,158
		625,899	373,072
Current liabilities			
Trade and bills payables	24	122,342	61,264
Other payables and accrued expenses	24	81,273	20,825
Amounts due to customers for contract work	23	2,101	—
Amounts due to fellow subsidiaries	24	65,304	7,099
Amount due to immediate holding company	24	—	39
Amount due to ultimate holding company	24	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

	NOTE	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Redeemable convertible preferred shares	27	181,840	179,274
Deferred tax liabilities	28	3,072	—
		184,912	179,274
		283,596	164,845
Capital and reserves			
Share capital	25	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

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 2007

	NOTE	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		42,848	27,917
Adjustments for:			
Share of profits of associates		(8,111)	(2,645)
Interest income		(2,358)	(2,718)
Interest expense		14,305	11,984
Amortisation of other intangible assets		479	—
Depreciation of property, plant and equipment		934	589
Gain on disposal of an associate		—	(384)
Net loss on disposal of property, plant and equipment		21	2
Allowance for bad and doubtful debts		7,132	—
Expense recognised in profit or loss in respect of equity-settled share-based payments		10,937	—
Write-down of inventories		1,258	1,621
Operating cash flows before movements in working capital		67,445	36,366
(Increase) decrease in inventories		(11,600)	41,208
Increase in trade receivables		(11,903)	(10,821)
Decrease (increase) in prepayments, deposits and other receivables		693	(8,264)
Decrease in amounts due from customers for contract work		1,577	—
Decrease (increase) in amount due from an associate		58	(58)
Increase in amounts due from fellow subsidiaries		(11,696)	(5,323)
Increase in amount due from ultimate holding company		(134,995)	(141,051)
Increase (decrease) in trade and bill payables		44,453	(3,030)
Increase in other payables and accrued expenses		70,420	5,505
Decrease in amounts due to customers for contract work		(2,981)	—
Increase in amounts due to fellow subsidiaries		12,005	6,183
(Decrease) increase in amount due to immediate holding company		(39)	39
Increase in amount due to ultimate holding company		352	—
Cash generated from (used in) operations		23,789	(79,246)
Income taxes paid		(1,806)	(5,240)
Bank interest paid		(18)	—
NET CASH FROM (USED IN)OPERATING ACTIVITIES		21,965	(84,486)

	NOTE	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries	29	(67,512)	6,731
Purchase of property, plant and equipment		(1,656)	(2,231)
Interest received		2,358	2,718
Proceeds from disposal of property, plant and equipment		26	515
Acquisition of an associate		—	(39,988)
Proceeds from disposal of an associate		—	6,931
NET CASH USED IN INVESTING ACTIVITIES		(66,784)	(25,324)
FINANCING ACTIVITIES			
Proceeds from placement of shares		47,000	—
Advance from a fellow subsidiary		31,787	—
Proceeds from exercise of share options		6,104	6,901
Interest paid to redeemable convertible preferred shares holder		(21,692)	—
Dividend paid to ordinary shareholders		(7,715)	(15,333)
Share issue expenses		(176)	—
Proceeds from issuance of redeemable convertible preferred shares		—	93,210
NET CASH FROM FINANCING ACTIVITIES		55,308	84,778
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		10,489	(25,032)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		148,158	165,405
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		8,589	7,785
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash		167,236	148,158

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 respectively. 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 interrelated 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 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 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 foreign 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 work 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 chose 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. 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.

Estimated impairment of other intangible assets

Determining whether other intangible assets are impaired requires an estimation of the future cash flows expected to arise from the products developed and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of other intangible assets at 31 December 2007 was HK$12,288,000 (2006: nil) with no impairment loss recognised.

Allowance for inventories

The management of the Group reviews an aging analysis of inventories 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.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current credit worthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

5. CAPITAL RISK MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which include redeemable convertible preferred shares disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on annual 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, new share issues as well as the issue of redeemable convertible preferred shares to strategic investors or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) 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	268,448

(b) 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 effective 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 nonderivative 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 31.12.2007**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006							
Non-derivative financial liabilities							
Trade and bills payables	—	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, potential cash flows of HK$194,263,000 (2006: HK$194,263,000) in the settlement of the redeemable convertible preferred shares will be remote.

(c) **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.

7. 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

8. 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 sales 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	Manufacture and trading of computer products	Development and sale of computer software	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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	Manufacture and trading of computer products	Development and sale of computer software	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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	Manufacture and trading of computer products	Development and sale 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 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	Manufacture and trading of computer products	Development and sale 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 sale 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

The Group's operations are currently carried out in the PRC (including 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	**2006**
	HK'000	*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	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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

9. OTHER INCOME

	2007	**2006**
	HK'000	*HK'000*
Interest income	2,358	2,718
Net foreign exchange gain	10	286
Others	1,289	587
Gain on disposal of an associate	—	384
	3,657	3,975

10. 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 *(note 28)*	(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.

11. 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 *(note 12)*		
Fee	227	204
Other emoluments	1,866	2,666
Other staff costs		
Salaries and other benefits	13,239	4,966
Retirement benefit scheme contributions	1,025	295
	16,357	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

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eleven (2006: eleven) directors were as follows:

	Executive director				Non-executive director				Independent non-executive director			
	Leung Chi Ho	Sun Pishu	Wang Miao	Zhang Lei	Wong Hung, Alex	Xin Wei Hua	Marc Evan Brown	William James Fass	Liu Ping Yuan	Meng Xiang Xu	Wong Lit Chor, Alexis	2007
	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	107	227
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	107	2,093

	Executive director				Non-executive director				Independent non-executive director			
	Leung Chi Ho	Sun Pishu	Wang Miao	Zhang Lei	Wong 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

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

13. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, four (2006: four) were directors of the Company whose emoluments are set out in note 12 above. The emoluments of the remaining one (2006: one) highest paid individual were as follows:

	2007	**2006**
	HK'000	*HK'000*
Salaries and other benefits	190	449
Retirement benefit scheme contributions	5	12
	195	461

14. 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: final dividend of HK1.5 cents) per share has been proposed by the directors.

15. 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 as disclosed in note 25 to the consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	Machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2006	—	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
Exchange adjustments	77	85	16	178
Acquired on acquisition of subsidiaries	599	148	448	1,195
Additions	245	1,411	—	1,656
Disposals	(5)	(99)	—	(104)
At 31 December 2007	1,867	3,462	686	6,015
DEPRECIATION				
At 1 January 2006	—	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
Exchange adjustments	14	17	2	33
Charge for the year	245	642	47	934
Eliminated on disposals	—	(57)	—	(57)
At 31 December 2007	337	1,842	59	2,238
CARRYING VALUES				
At 31 December 2007	1,530	1,620	627	3,777
At 31 December 2006	873	677	212	1,762

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

Machinery	10% - 20%
Furniture, fixtures and office equipment	10% - 33⅓%
Motor vehicles	10% - 20%

17. GOODWILL

	HK$'000
At 1 January 2006 and 1 January 2007	—
Arising on acquisition of subsidiaries *(note 29)*	30,542
At 31 December 2007	30,542

Particulars regarding impairment testing on goodwill are disclosed in note 18.

18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 17 has been allocated to the cash generating unit ("CGU") of software development. The carrying amounts of goodwill as at 31 December 2007 allocated to this unit is as follows:

	Goodwill HK$'000
Software development	30,542

Management of the Group considers cashflow projections which was prepared based on financial budgets and determined that there was no impairment of the CGU containing goodwill as at 31 December 2007.

The recoverable amounts of the CGU of software development have been determined based on a value in use calculation. For the purpose of assessing goodwill impairment, the value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-years period and discount rate of 12.23%. A key assumption for the value in use calculations is the budgeted growth rate ranged from 6.5% to 16%, which is determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

19. OTHER INTANGIBLE ASSETS

	Registered software	Customer Contracts	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2006 and 1 January 2007	—	—	—
Acquisition of subsidiaries	11,971	796	12,767
At 31 December 2007	11,971	796	12,767
AMORTISATION AND IMPAIRMENT			
At 1 January 2006 and 1 January 2007	—	—	—
Charge for the year	214	265	479
At 31 December 2007	214	265	479
CARRYING AMOUNT			
At 31 December 2007	11,757	531	12,288
At 31 December 2006	—	—	—

The intangible assets of the Group were acquired as part of a business combination in the current year.

The intangible assets have finite useful lives. Intangible assets are depreciated on a straight-line basis over the following period:

Customer contracts	3 months to 1 year
Registered software	5 years

20. INTERESTS IN ASSOCIATES

	2007	2006
	HK'000	*HK'000*
Cost of investment in associates — unlisted	53,591	53,591
Share of post-acquisition profits	13,032	4,921
Exchange realignment	4,525	—
	71,148	58,512

As at 31 December 2007, 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$4,469,000 (2006: HK$4,168,000) arising on acquisition of associates. The movement of goodwill is set out below.

	HK$'000
Cost	
At 1 January 2006	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
Exchange adjustments	301
At 31 December 2007	4,469

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

	2007	2006
	HK'000	*HK'000*
Total assets	233,271	216,221
Total liabilities	(44,114)	(46,922)
Net assets	189,157	169,299
Group's share of net assets of associates	66,679	54,344
Revenue for the year	240,760	221,523
Profit for the year	24,975	9,618
Group's share of results of associates for the year	8,111	2,645

21. INVENTORIES

	2007	2006
	HK'000	*HK'000*
Raw materials	8,458	1,029
Work in progress	2,969	5,063
Finished goods held for sale	44,914	39,205
	56,341	45,297

22. TRADE RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

Trade receivables

	2007	2006
	HK'000	*HK'000*
Trade receivable	66,540	13,787
Less: Allowance for bad and doubtful debts	(7,132)	—
	59,408	13,787

The Group allows an average credit period of 30 to 120 days (2006: 30 to 90 days) to its customers. The aged analysis of trade receivables is stated as follows:

	2007	2006
	HK'000	*HK'000*
0 to 30 days	22,809	13,136
31 to 60 days	15,713	620
61 to 90 days	5,704	3
91 to 120 days	911	28
Over 120 days	14,271	—
	59,408	13,787

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 customers. Limits and scoring attributed to customers are reviewed twice a year. 75% 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 HK$14,271,000 and HK$31,000 as at 31st December, 2007 and 2006 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 140 days and 110 days in the year of 2007 and 2006 respectively.

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK'000	*HK'000*
60 to 90 days	—	3
90 to 120 days	—	28
Over 120 days	14,271	—
	14,271	31

Movement in the allowance for bad and doubtful debts

	2007	2006
	HK'000	*HK'000*
Balance at beginning of year	—	—
Impairment losses recognised on receivables	7,132	—
Balance at the end of year	7,132	—

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$7,132,000 (2006: nil) which have been under dispute. The Group does not hold any collateral over these balances.

Other receivables

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

In determined the recoverability of 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 180 days based on the management past 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.

Amounts due from related companies

The Group allows an average trade credit period of 30 to 210 days (2006: 30 to 90 days) to its trade receivables due from its fellow subsidiaries and ultimate holding company, the following is an aged analysis of amounts due from fellow subsidiaries and ultimate holding company at the balance sheet date:

	2007	**2006**
	HK'000	*HK'000*
Amounts due from fellow subsidiaries		
0 — 30 days	26,595	14,175
31 — 60 days	735	—
61 — 90 days	161	1,348
91 — 210 days	10,134	—
	37,625	15,523

	2007	**2006**
	HK'000	*HK'000*
Amount due from ultimate holding company		
0 — 30 days	144,170	43,788
31 — 60 days	30,202	56,490
61 — 90 days	51,860	40,775
91 — 210 days	58,939	—
	285,171	141,053

The amounts due from fellow subsidiaries and ultimate holding company have not been past due at the reporting date and the Group has not provided for impairment loss. In determining the recoverability of amounts due from fellow subsidiaries and ultimate holding company, 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.

The amount due from an associate was unsecured, interest free and fully settled during the year.

Bank balances and cash

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 amounts of these assets approximate to their fair values. The bank balances carried interest at market rates which range from 1.07% to 4.7% (2006: 0.72% to 4.60%) per annum. At 31 December 2007, the bank balances and cash of approximately HK$113,168,000 (2006: HK$121,337,000) were denominated in RMB which is not freely convertible into other currencies.

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

	2007	**2006**
	HK'000	*HK'000*
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	51,186	—
Less: Progress billings	(47,151)	—
	4,035	—
Analysed for reporting purposes as:		
Amounts due from contract customers	6,136	—
Amounts due to contract customers	(2,101)	—
	4,035	—

At 31 December 2007, there was no retentions held by customers for contract works. Advances received from customers for contract work amounted to HK$1,979,000 (2006: nil) included in other payables and accrued expenses.

24. TRADE AND BILLS PAYABLES AND OTHER CURRENT FINANCIAL LIABILITIES

Trade and bills 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 90 days.

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

	2007	**2006**
	HK'000	*HK'000*
Trade payables		
0 — 30 days	95,914	40,831
31 — 60 days	17,656	17,785
61 — 90 days	2,028	1,918
Over 90 days	6,744	730
	122,342	61,264

	2007	**2006**
	HK'000	*HK'000*
Amounts due to related companies:		
Trading in nature		
Fellow subsidiaries	33,517	7,099
Ultimate holding company	3,646	—
	37,163	7,099
Total non-trading in nature		
A fellow subsidiary	31,787	—
Immediate holding company	—	39
Total amounts due to related companies	68,950	7,138

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

	2007	**2006**
	HK'000	*HK'000*
0 to 30 days	33,517	4,286
31 to 90 days	3,646	2,852
	37,163	7,138

The amount due to a fellow subsidiary which is non-trading in nature is unsecured and interest-free and repayable on demand.

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

25. SHARE CAPITAL OF THE COMPANY

	Notes	**Number of shares**	
		'000	*HK$'000*
Authorised:			
Ordinary shares of HK$0.01each 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$0.002each at 31 December 2007		5,000,000	50,000
Issued and fully paid:			
Ordinary shares of HK$0.01each 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. Details of options outstanding and movements during the year are set out in note 26.

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.

26. SHARE OPTION SCHEMES

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 2007, the number of shares available for issue and remained outstanding under the Pre-IPO Scheme are 120,000,000 shares (2006: 120,000,000 shares) representing 4.1% (2006: 4.7%) of the issued share capital of the Company. The number of shares under the Option Scheme are 278,150,000 shares (2006: 130,000,000 shares) representing 9.49% (2006: 5.1%) 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.

On 30 January 2007, a total of 51,430,000 share options were granted to certain employees and directors of the Group and an associate 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 estimated fair value of the options granted on 30 January 2007 was HK$11,755,000.

The share options granted at 8 April 2004 and 28 December 2004 do not have any vesting conditions and are fully vested on the grant date.

20% of the share options granted at 30 January 2007 are exercisable during the period from the date of grant to 29 January 2017 while the remaining 80% of the share options are exercisable during the period from 29 January 2008 to 29 January 2017. All options are vested on the first day of respective exercise period.

The estimated fair value of the option granted on 30 January 2007 was calculated using the binominal model. The inputs into the model were as follows:

	Date of grant
	30.1.2007
Closing share price at date of grant	HK$0.56
Exercise price	HK$0.56*
Expected volatility	69.83%
Expected life	10 years
Risk-free rate	4.181%
Expected dividend yield	2.5%

* This price has not been adjusted for the effect of the Share Subdivision of the Company which took effect on 14 December 2007.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year.

The Group recognised the total expense of HK$10,937,000 for the year ended 31 December 2007 (2006: nil) in relation to share options granted by the Company.

The binominal model has been used to estimate the fair values of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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	0.0648 *(note)*
Option Scheme	28 December 2004	28 December 2004 to 27 December 2014	0.056 *(note)*
Option Scheme	30 January 2007	30 January 2007 to 29 January 2017	0.112 *(note)*

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 1.1.2006**	**Exercised during the year**	**Outstanding at 1.1.2007**	**Granted during the year**	**Adjusted upon the share subdivision** *(note)*	**Exercised during the year**	**Outstanding at 31.12.2007**
Pre-IPO Scheme	33,200,000	(9,200,000)	24,000,000	—	96,000,000	—	120,000,000
Option Scheme	40,000,000	(14,000,000)	26,000,000	—	104,000,000	(109,000,000)	21,000,000
Option Scheme	—	—	—	51,430,000	205,720,000	—	257,150,000
	73,200,000	(23,200,000)	50,000,000	51,430,000	405,720,000	(109,000,000)	398,150,000

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$1.06 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 1.1.2006 & 1.1.2007**	**Adjustedupon the share subdivision** *(note)*	**Outstanding at 31.12.2007**
Pre-IPO Scheme	24,000,000	96,000,000	120,000,000

Note: The number and the exercise price of options which remained outstanding have been adjusted due to Share Subdivision of the Company with effect from 14 December 2007. Each share option was subdivided into 5 new shares options with exercise price of one fifth of the original exercise price.

27. 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 five ordinary shares after Share Subdivision. 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 Preferred 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".
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The movement of the liability component of the Preferred Shares for the year is set out below:

	2007	**2006**
	HK'000	*HK'000*
Carrying amount at the beginning of the year	179,274	95,102
Liability component recognised during the year	—	82,159
Interest charge	14,287	11,984
Coupon interest payable included in other payables and accrued expenses	—	(9,971)
Coupon interest paid for the year	(11,721)	—
	181,840	179,274

The weighted average effective interest rate of the liability component is 7.97% (2006: 7.97%).

28. DEFERRED TAX LIABILITIES

The following is the deferred tax liabilities recognised and movements thereon during the current and prior reporting years:

	Other intangible assets
	HK$'000
At 1 January 2006 and 1 January 2007	—
Acquired on acquisition of subsidiaries	3,192
Credit to the consolidated income statement for the year *(note 10)*	(120)
At 31 December 2007	3,072

29. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2007

On 14 December 2007, the Group acquired a 49% of the issued capital of Inspur Communication through the acquisition of the entire interests in Shine Victory International Limited and 51% of the issued capital of Inspur Communication from an independent party and Shandong Inspur Electronic Information Technology Company Limited (山東浪潮電子信息科技有限公司), a subsidiary of Inspur Corporation at consideration of RMB43,120,000 and RMB44,880,000 (equivalent to HK$45,876,000 and HK$47,749,000) respectively. These transactions have been accounted for using the acquisition method of accounting. The amount of goodwill as a result of the acquisition was HK$30,542,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	**Provisional fair value adjustments**	**Provisional fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	1,195	—	1,195
Other intangible assets	—	12,767	12,767
Inventories	702	—	702
Trade receivables	40,849	—	40,849
Other receivables	6,083	—	6,083
Amounts due from customers for contract work	7,713	—	7,713
Amounts due from related parties	10,469	—	10,469
Bank balances and cash	26,113	—	26,113
Trade and other payables	(16,827)	—	(16,827)
Amounts due to customers for contract work	(5,082)	—	(5,082)
Amounts due to related parties	(17,707)	—	(17,707)
Deferred tax liabilities	—	(3,192)	(3,192)
	53,508	9,575	63,080
Goodwill on acquisition			30,542
Total consideration, satisfied by cash			93,625
Net cash outflow arising on acquisition:			
Cash consideration paid			(93,625)
Bank balances and cash acquired			26,113
			(67,512)

Notes:

(a) The Group is in the process of assessing the fair value of the identifiable intangible assets of Inspur Communication at date of completion of the acquisition, thus, the determination of the goodwill and other intangible assets disclosed herein is provisional and subject to revision once the Company completes its valuation exercise and upon the receipt of professional valuations. The identifiable intangible assets include the Registered Software developed by Inspur Communication and the Customer Contracts as preliminary identified by the directors of the Company.

(b) Pursuant to the purchase and sales agreements, the consideration of RMB88,000,000 (equivalent to approximately HK$93,625,000) is subject to the downward price adjustment mechanism ("Price Adjustment") which is reference to the audited profit after tax for the years ended 31 December 2007 and 31 December 2008. Details of the Price Adjustment are set out in the circular of the Company dated 26 November 2007.

(c) Shine Victory International Limited is the investment holding company and Inspur Communication is principally engaged in software development. The goodwill arising on the acquisition of subsidiaries is attributable to the anticipated profitability from Inspur Communication and the anticipated future operating synergies from the combination.

Inspur Communication and Shine Victory International Limited contributed in aggregate approximately HK$10,944,000 and nil respectively to the Group's turnover and approximately HK$1,513,000 and nil to the Group's profit before taxation for the period between the date of completion and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total Group profit for the year would have been approximately HK$48,196,000 and total group turnover for the period would have been approximately HK$1,003,982,000. 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 2007, nor is it intended to be a projection of future results.

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.

30. 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:

	2007	**2006**
	HK'000	*HK'000*
Within one year	304	431
In the second to fifth years inclusive	140	—
	444	431

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.

31. 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$1,037,000 (2006: HK$307,000).

32. RELATED PARTY TRANSACTIONS/BALANCES

Apart from the amounts due from and to related parties as disclosed in notes 22 and 24 respectively, the Group had entered into the following related party transactions during the year:

	2007	**2006**
	HK'000	*HK'000*
Sales of computer components *(note a)*	173,720	127,942
Sales of computer *(note b)*	274,770	146,712
Provision of IT Services *(note c)*	3,912	1,143
Purchase of goods *(note b)*	58,887	22,333
Commission paid *(note d)*	100	12

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. On 29 August 2006, a new agreement was entered into between the Group and Inspur Corporation which extend the period from 1 January 2007 to 31 December 2009. 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 2007 amounted to approximately nil (2006: HK$749,000) and HK$173,720,000 (2006: HK$127,193,000) 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 ultimate holding company and fellow subsidiaries for the year ended 31 December 2007 amounted to approximately HK$20,220,000 (2006: nil) and HK$38,667,000 (2006: HK$22,333,000) respectively. The sales made under this arrangement to the ultimate holding company and fellow subsidiaries for the year ended 31 December 2007 amounted to approximately HK$252,744,000 and HK$22,026,000 (2006: 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 service income derived under this agreement from a fellow subsidiary for the year ended 31 December 2007 amounted to approximately HK$3,912,000 (2006: 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 selling agent in the sale of the products and the services 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 2007 amounted to approximately HK$100,000 (2006: HK$12,000).

(e) On 14 December 2007, Inspur (Shangdong) Electronic Information Company Limited (浪潮(山東)電子信息有限公司), a subsidiary of the Company, acquired a 51% equity interest in Inspur Communication from Shandong Inspur Electronic Information Technology Company Limited (山東浪潮電子信息科技有限公司), a subsidiary of Inspur Corporation, at a consideration of RMB44,880,000 (equivalent to approximately HK$47,749,000). Further details regarding the acquisition were disclosed in the Company's circular dated 27 November 2007.

(f) On 9 November 2007, Inspur Communication entered into a subcontracting agreement (the "Subcontracting Agreement") with Inspur Corporation pursuant to which the Inspur Group will subcontract its software development and maintenance business to Inspur Communication. The contractual amount of the business subcontracted to Inspur Communication will be based on the amount of contract bid by the Inspur Group under the tender out of which Inspur Communication shall pay a commission of 0.5% of the total contract sum. No commission was paid or payable during the year ended 31 December 2007.

(g) During the year ended 31 December 2006 and 2007, 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.

Compensation of key management personnel

The remuneration of directors and key executive during the year are set out in notes 12 and 13, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the subsidiaries of the Company at 31 December 2007 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 manufacture, trading of computer products
Timeone Technology Limited	Incorporated	British Virgin Islands	Ordinary	US$50,000	—	100%	100%	Investment holding
Inspur E-Government **	Incorporated	PRC	Ordinary	RMB15,000,000	—	53.3%	53.3%	Manufacture, sale and development of computer software
Inspur Communication**	Incorporated	PRC	Ordinary	RMB50,000,000	—	100%	100%	Manufacture, sale and development of computer software
Shine Victory International Limited	Incorporated	Hong Kong	Ordinary	HK$8,979,000	100%	—	100%	Investment holding

* This entity is a wholly foreign owned enterprise.

** This entity is a domestic limited liability company.

Except for acquisition of Inspur Communication and Shine Victory International Limited as set out in note 29, there is no change in the shareholdings of respective subsidiaries as set out above since 1 January, 2007.

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

34. OTHER COMMITMENT

On 18 December 2007, the Company entered into an acquisition agreement pursuant to which the Company has agreed to acquire the entire issued share capital of Intersource Technology Limited which indirectly owns 21.26% equity interest in Inspur Genersoft which is the 30.05% associate of the Group as at year end at a consideration of RMB35,079,000 (equivalent to HK$37,417,600). Upon the completion of the acquisition, Inspur Genersoft will become a 51.31% non-wholly owned subsidiary of the Group. The acquisition is subject to the approval of the independent shareholders at Extraordinary General Meeting ("EGM") of the Company.

35. POST BALANCE SHEET EVENTS

(a) On 4 January 2008, the Company has entered into a placing agreement pursuant to which the Company has conditionally agreed to place 100,000,000 shares to certain financial institutions at the price of HK$1.25 per share. The net proceeds from the placing of approximately HK$121.1 million are intended to be used as general working capital of the Group.

(b) On 19 February 2008, the Group entered into an acquisition agreement pursuant to which the Group has agreed to purchase an additional 60% of the registered capital of 山東商用 which is the 40% associate of the Group as at year end from a subsidiary of Inspur Corporation at a consideration of RMB30,000,000 (equivalent to HK$32,000,000). Upon completion of the acquisition, 山東商用 will become a wholly owned subsidiary of the Group. The acquisition is subject to the approval of the independent shareholders at EGM of the Company.

(B) INDEBTEDNESS STATEMENT

As at 30 April 2008, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Enlarged Group had no outstanding borrowings. 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 30 April 2008, 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

FINANCIAL HIGHLIGHTS

During the year under review, the Group recorded a turnover of HK$922,174,000 (2006: HK$870,619,000), increased by 5.92% as compared with last year. Profit attributable to shareholders rose from HK$25,160,000 to HK$38,801,000, increased by 54.22%. Earnings per share rose by 49.49%, from HK$0.99 cents to HK$1.48 cents.

PROSPECT

2007 marked a landmark year to the Group in terms of corporate development. The Group entered into a series of agreements for the acquisition of businesses in the PRC with promising prospects and also conducted issue of shares to 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.

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 (Inspur) 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 acquisitions

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.

(E) COMPLETION OF ACQUISITION OF TWO COMPANIES AFTER YEAR END

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 with principal establishment in Jinan City and principally engaged in the development, distribution of enterprise resources planning products, and offering all-round services for enterprise informationization, at consideration of RMB35,079,000. The said acquisition has been completed with effect on 31 March 2008, resulting in increase of the Group's equity interest in Inspur Genersoft from 30.05% to 51.31%. The consideration was paid to the vendor by cash in two stages : (i) RMB10,000,000 as initial deposit; and (ii) the remaining balance upon completion. The said acquisition did not vary the aggregate of the remuneration payable to and benefits in kind receivable by directors of the Company, being the acquiring company.

Acquisition — 60% in Shangong Inspur Business system Company Limited

Subsequent to 31 December 2007 (the date to which the latest audited accounts of the Company have been made up), 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 with principal establishment in Jinan City and 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. The acquisition of the 60% equity interest in IBS has been completed with effect on 31 March 2008. The consideration of RMB36,000,000 was paid to the vendor by cash in two stages: (i) RMB10,000,000 as initial deposit was paid to the vendor; (ii) the remaining balance upon completion. This acquisition did not vary the aggregate of the remuneration payable to and benefits in kind receivable by directors of Inspur (Shandong) Electronic Information Company Limited, being the acquiring company.

The following is the text of accountants' report on the Target prepared by Deloitte Touche Tohmatsu for the sole purpose of inclusion in the circular of the Company dated 13 June 2008 in relation to the Acquisition:

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

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

13 June 2008

The Directors
Inspur International Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Langchao Worldwide Services Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the period from 13 March 2006 (date of incorporation) to 31 December 2006 and the year ended 31 December 2007 (the "Relevant Periods") for inclusion in the circular of the Inspur International Limited dated 13 June 2008 (the "Circular") in connection with the proposed acquisition of the entire equity interest in the Company.

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Laws of 1961, as consolidated and revised) of the Cayman Islands on 13 March 2006.

Particulars of the Company's subsidiaries are as follows:

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Company As at 31 December 2006	Equity interest attributable to the Company As at 31 December 2007	Equity interest attributable to the Company Date of this report	Issued and fully paid share capital/ registered capital	Principal activities
浪潮世科(山東)信息技術有限公司# Inspur Worldwide Services Limited ("Worldwide Shandong")	The People's Republic of China ("PRC") 12 July 2004	100%	100%	100%	US$2,317,300	Provision of outsourcing software development services

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Company As at 31 December 2006	2007	Date of this report	Issued and fully paid share capital/ registered capital	Principal activities
浪潮世科(青島)信息技術有限公司 Langchao Worldwide (Qingdao) Services Incorporation* ("Worldwide Qingdao")	PRC 3 February 2000	51%	100%	100%	US$253,200	Provision of outsourcing software development services
浪潮高優(上海)信息技術有限公司 Langchao Gaoyou (Shanghai) Services Incorporation ("Gaoyou Shanghai")*	PRC 25 July 2003	89.64%	89.64%	89.64%	US$140,000	Provision of outsourcing software development services
浪潮世捷(北京)信息技術有限公司 Langchao Shijie (Beijing) Services Incorporation* ("Shijie Beijing")	PRC 1 February 2005	99%	99%	99%	RMB1,986,400	Provision of outsourcing software development services
Inspur Japan Co., Ltd. ("Inspur Japan")	Japan 24 March 2005	100%	100%	100%	JPY10,000,000	Provision of outsourcing software development services
Inspur Worldwide Services Ltd.# ("Inspur US")	The United States of America ("USA") 1 June 2006	100%	100%	100%	US$1	Provision of outsourcing software development services
Inspur Worldwide Services Ltd.# ("Inspur HK")	Hong Kong 15 July 2003	100%	100%	100%	HK$100,000	Investment holding

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

\# Worldwide Shandong, Inspur US and Inspur HK are directly held by the Company whereas the remaining subsidiaries are indirectly held by the Company.

Note: Prior to the acquisition of Worldwide Shandong by the Company, all subsidiaries except for Inspur US were either directly or indirectly held by Worldwide Shandong.

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

No statutory financial statements have been prepared for the Company, Inspur US, Inspur Japan and Inspur HK since their respective dates of incorporation as these companies have not carried on any business other than acting as investment holding companies or they are incorporated in countries where there is no such statutory requirement.

The statutory financial statements of the other group companies 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
Worldwide Shandong	Each of the two years ended 31 December 2007	山東大華會計師事務所有限公司 Shandong Da Hua Certified Public Accountants
Worldwide Qingdao	Each of the two years ended 31 December 2007	山東大地會計師事務所 Shandong Dadi Certified Public Accountants
Gaoyou Shanghai	Each of the two years ended 31 December 2007	上海眾創會計師事務所有限公司 Shanghai Zhongchuang Certified Public Accountants
Shijie Beijing	Each of the two years ended 31 December 2007	北京今創會計師事務所 Beijing Keenchoice 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 ("HKFRSs") 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 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. The directors of Inspur International Limited are responsible for 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 Company and the Group as at 31 December 2006 and 2007 and of the results and cash flows of the Group for the Relevant Periods.

(A) FINANCIAL INFORMATION

Consolidated income statements

	Notes	13 March 2006 (date of incorporation) to 31 December 2006 HK$'000	1 January 2007 to 31 December 2007 HK$'000
Revenue	6	49,374	84,292
Cost of services rendered		(34,797)	(55,642)
Gross profit		14,577	28,650
Other income	8	959	281
Selling and distribution costs		(1,438)	(3,094)
Administrative expenses		(10,888)	(12,574)
Finance costs	9	(347)	(274)
Profit before taxation		2,863	12,989
Taxation	11	—	—
Profit for the period/year	12	2,863	12,989
Attributable to:			
Equity holders of the Company		2,877	12,989
Minority interests		(14)	—
		2,863	12,989

Balance sheets

		THE GROUP As at 31 December		THE COMPANY As at 31 December	
	Notes	**2006**	**2007**	**2006**	**2007**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	15	8,275	15,763	—	—
Investments in subsidiaries	16	—	—	18,232	19,412
Goodwill	17	—	1,180	—	—
		8,275	16,943	18,232	19,412
Current assets					
Trade receivables	18	5,283	6,924	—	—
Other receivables, deposits and prepayments	18	2,921	2,721	—	—
Amount due from a subsidiary	19	—	—	19,193	20,088
Amounts due from related companies	20	11,521	201	—	—
Bank balances and cash	21	5,408	7,792	7	5
		25,133	17,638	19,200	20,093
Current liabilities					
Trade payables	22	1,655	1	—	—
Other payables, deposits received and accruals		5,628	2,858	8	8
Amounts due to related companies	20	10,305	353	—	—
		17,588	3,212	8	8
Net current assets		7,545	14,426	19,192	20,085
Total assets less current liabilities		15,820	31,369	37,424	39,497
Equity					
Share capital	23	37,441	39,431	37,441	39,431
Reserves		(21,621)	(8,062)	(17)	66
Equity attributable to equity holders of the Company		15,820	31,369	37,424	39,497
Minority interests		—	—	—	—
		15,820	31,369	37,424	39,497

Consolidated statements of changes in equity

	Attributable to equity holders of the Company							
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Other reserve** *HK$'000* *(note a)*	**Translation reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*	**Minority interests** *HK$'000*	**Total** *HK$'000*
Exchange difference arising on translation of foreign operations recognised directly in equity	—	—	—	(57)	—	(57)	—	(57)
Profit for the period	—	—	—	—	2,877	2,877	(14)	2,863
Total recognised income and expense for the period	—	—	—	(57)	2,877	2,820	(14)	2,806
Issue of shares on date of incorporation *(note b)*	—	—	—	—	—	—	—	—
Issue of shares at par	8,608	—	—	—	—	8,608	—	8,608
Effect of transfer-in of Worldwide Shandong *(note 25)*	9,403	—	(24,441)	—	—	(15,038)	14	(15,024)
Issue of shares at premium	7,488	11,942	—	—	—	19,430	—	19,430
Issue of shares by capitalisation of the share premium account	11,942	(11,942)	—	—	—	—	—	—
Sub-total	37,441	—	(24,441)	—	—	13,000	14	13,014
At 31 December 2006	37,441	—	(24,441)	(57)	2,877	15,820	—	15,820
Exchange difference arising on translation of foreign operations recognised directly in equity	—	—	—	570	—	570	—	570
Profit for the year	—	—	—	—	12,989	12,989	—	12,989
Total recognised income and expense for the year	—	—	—	570	12,989	13,559	—	13,559
Issue of shares at par	810	—	—	—	—	810	—	810
Issue of shares for the acquisition of additional equity interest in Worldwide Qingdao	1,180	—	—	—	—	1,180	—	1,180
Sub-total	1,990	—	—	—	—	1,990	—	1,990
At 31 December 2007	39,431	—	(24,441)	513	15,866	31,369	—	31,369

Notes:

a. Other reserve of the Group represents the difference between the net liabilities of the subsidiaries and the nominal amount of the Company's shares issued and cash paid for the transfer-in of Worldwide Shandong.

b. The Company was incorporated in the Cayman Islands on 13 March 2006 with an authorised share capital of US$10,000,000 divided into 1,000,000,000 shares of US$0.01 each. One share of US$0.01 was issued at par to the subscriber on date of incorporation.

Consolidated cash flow statements

	Note	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
		HK$'000	*HK$'000*
OPERATING ACTIVITIES			
Profit before taxation		2,863	12,989
Adjustments for:			
Bank interest income		(201)	(204)
Interest expense		347	274
Depreciation of property, plant and equipment		1,773	4,562
Loss on disposal of property, plant and equipment		3	139
Operating cash flows before movements in working capital		4,785	17,760
Decrease (increase) in trade receivables		2,121	(1,641)
Decrease in other receivables, deposits and prepayments		2,349	200
(Increase) decrease in amount due from a fellow subsidiary		(713)	667
Increase (decrease) in trade payables		8	(1,654)
Decrease in other payables, deposits received and accruals		(7,034)	(2,770)
Increase (decrease) in amount due to a fellow subsidiary		114	(114)
NET CASH FROM OPERATING ACTIVITIES		1,630	12,448
INVESTING ACTIVITIES			
Transfer-in of Worldwide Shandong	25	(6,709)	—
Purchase of property, plant and equipment		(2,017)	(11,641)
Proceeds from disposal of property, plant and equipment		99	43
Bank interest received		201	204
NET CASH USED IN INVESTING ACTIVITIES		(8,426)	(11,394)

	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
(Advance to) repayment from ultimate holding company	(10,808)	10,653
Repayment to ultimate holding company	(4,679)	(9,838)
Interest paid	(347)	(274)
Issue of shares	28,038	810
NET CASH FROM FINANCING ACTIVITIES	12,204	1,351
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,408	2,405
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	—	5,408
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	—	(21)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash	5,408	7,792

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability on 13 March 2006. The address of the Company's registered office and the principal place of business is the offices of Offshore Incorporations (Cayman) Limited, Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. Its ultimate holding company, is Inspur Group Limited (established in the People's Republic of China ("PRC")) and its immediate holding company is Lang Chao (HK) Electronics Limited (incorporated in Hong Kong).

The functional currency of the Company is Renminbi whilst the Financial Information is presented in Hong Kong dollars ("HK$") for the convenience of the Financial Information users.

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 accounting periods of the Group beginning on or prior to 1 January 2007. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted all these New HKFRSs consistently throughout the Relevant Periods.

The Group has not early applied the following new, amended 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]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC) - INT 12	Service concession arranagements[4]
HK(IFRIC) - INT 13	Customer loyalty programmes[5]
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

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

2 Effective for annual periods beginning on or after 1 July 2009.

3 Effective for annual periods beginning on or after 1 March 2007.

4 Effective for annual periods beginning on or after 1 January 2008.

5 Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new, amended or revised 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.

The results of subsidiaries acquired or disposed of during the period/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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Revenue recognition

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

Income from provision of consultancy software development services and commission income are 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 held for use in the provision of services 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 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 period/year in which the item is derecognised.

Goodwill

Goodwill arising on an acquisition of a business 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.

Goodwill on acquisition of additional interests in a subsidiary is calculated as the difference between the consideration paid for the additional interests and the carrying value of the net assets of the subsidiary attributable to the additional interests acquired.

Goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition and on acquisition of additional interest in a subsidiary 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period/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 with no further related cost are recognised as income when they are unconditional and become receivable.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and 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 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/years and it further excludes items that are never taxable or deductible. The Group's or the Company'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 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 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/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.

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 and the Company's financial assets are classified into loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

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 trade receivables, other receivables and deposits, amounts due from related companies, amount due from a subsidiary 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 loans and receivables 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.

Impairment of loans and receivables

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

- significant financial difficulty of counterparty;

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Loans and receivables, such as trade and other receivables, amounts due from related companies and amount due from a subsidiary, 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 or the Company'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 a loans and receivable is impaired, and is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. 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.

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade and other receivables, amounts due from related companies and amount due from a subsidiary, 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 receivable, amounts due from related companies/a subsidiary are considered uncollectible, these are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

Financial liabilities

Financial liabilities including trade payables, other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

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.

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 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/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 Group (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 period/year, unless exchange rates fluctuate significantly during the period/year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period/year in which the foreign operation is disposed of.

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

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

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 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 mainly consists of debt, which include amount due to ultimate holding company disclosed in note 20 and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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 associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through issue of new debt or shares.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			
	THE GROUP		THE COMPANY	
	2006	*2007*	*2006*	*2007*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	24,708	17,417	19,200	20,093
Financial liabilities				
Amortised cost	16,029	2,949	8	8

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables and deposits, amounts due from/to related companies, bank balances, trade payables and other payables. The Company's major financial instruments include amount due from a subsidiary. Detail 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.

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

Market risks

Fair value interest rate risk

The Group was exposed to fair value interest rate risk in relation to its fixed-rate amount due to ultimate holding company (see note 20 for details).

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable-rate bank balances. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances at the balance sheet date. The analysis is prepared assuming the amounts of variable-rate bank balances outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 50 basis points lower/higher and all other variables were held constant, the Group's profit for the period ended 31 December 2006 would decrease/increase by approximately HK$27,000 and the Group's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$39,000.

Currency risk

The group entities collect most of the revenue and incurs most of the expenditures in their respective functional currencies.

The directors consider that the Group's or the Company's exposure to foreign currency risk is insignificant as all of the Group's or the Company's transactions are denominated in the functional currency of each individual group entity.

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

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents (i.e. bank balances and cash) deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its 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 table

	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**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
As at 31 December 2006						
Non-interest bearing	—	6,102	2,648	58	8,808	8,808
Fixed interest rate instrument	4%	72	72	7,245	7,389	7,221
		6,174	2,720	7,303	16,197	16,029
As at 31 December 2007						
Non-interest bearing	—	2,617	332	—	2,949	2,949

The remaining contractual maturity of the Company for its non-derivative financial liabilities with undiscounted cash flow of HK$8,000 (2006: HK$8,000), based on the earliest date on which the Company is required to pay, is repayable on demand.

Credit risk

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group or the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the balance sheets.

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.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Company's credit risk is concentrated on the amount due from a subsidiary. The Company reviews the recoverable amount of the balance at each balance sheet date to ensure that adequate impairment losses are made for any irrecoverable amount.

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 Financial Information approximate to their fair values.

6. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties in connection with provision of outsourcing software development services.

7. SEGMENT INFORMATION

Geographical segments

The location of customers is the basis on which the Group reports its primary segment information. The following is an analysis of the Group's sales and results for the Relevant Periods by location of customers.

Consolidated income statement for the period from 13 March 2006 to 31 December 2006

	PRC	**Japan**	**United States of America ("USA")**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	15,453	17,826	16,095	49,374
Segment result	1,070	1,714	1,493	4,277
Unallocated corporate expenses				(1,268)
Interest income				201
Finance costs				(347)
Profit before taxation				2,863
Taxation				—
Profit for the period				2,863

Consolidated balance sheet at 31 December 2006

	PRC	Japan	USA	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	5,853	4,635	3,492	13,980
Unallocated corporate assets				19,428
				33,408
Liabilities				
Segment liabilities	1,830	921	352	3,103
Unallocated corporate liabilities				14,485
				17,588

Other information for the period from 13 March 2006 to 31 December 2006

	PRC	Japan	USA	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital addition	1,947	2,793	2,048	3,362	10,150
Depreciation of property, plant and equipment	208	480	434	651	1,773

Consolidated income statement for the year ended 31 December 2007

	PRC	Japan	USA	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	13,413	28,993	41,886	84,292
Segment result	992	5,046	8,303	14,341
Unallocated corporate expenses				(1,282)
Interest income				204
Finance costs				(274)
Profit before taxation				12,989
Taxation				—
Profit for the year				12,989

Consolidated balance sheet at 31 December 2007

	PRC	Japan	USA	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	8,542	4,862	6,710	20,114
Unallocated corporate assets				14,467
				34,581
Liabilities				
Segment liabilities	452	3	253	708
Unallocated corporate liabilities				2,504
				3,212

Other information for the year ended 31 December 2007

	PRC	**Japan**	**USA**	**Unallocated**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital addition	1,775	2,229	3,221	4,416	11,641
Additions to goodwill arising from acquisition of additional interests in a subsidiary	1,180	—	—	—	1,180
Depreciation of property, plant and equipment	695	874	1,262	1,731	4,562

Business segments

The Group's revenue is substantially derived from a single segment of provision of outsourcing software development services. Accordingly, no analysis by business segments is presented.

8. OTHER INCOME

	13 March 2006 (date of incorporation) to 31 December 2006	**1 January 2007 to 31 December 2007**
	HK$'000	*HK$'000*
Bank interest income	201	204
Commission income	328	7
Government grants *(Note)*	211	—
Net exchange gain	84	—
Value added tax refund	135	70
	959	281

Note: The amounts represent the subsidies received from the PRC Government for the purpose of encouraging the development of enterprises engaged in new and high technology sector. The subsidies received are recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to the subsidies granted to the Group.

9. FINANCE COSTS

	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
	HK$'000	*HK$'000*
Interests on amount due to ultimate holding company wholly repayable within five years	347	274

10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
	HK$'000	*HK$'000*
Directors' emoluments		
Fee	—	—
Salaries and other benefits	250	442
Retirement benefit scheme contributions	—	—
	250	442

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

	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
	HK$'000	*HK$'000*
Name of directors:		
Executive directors:		
Eric Kong Lie	250	442
Wang Xinshan	—	—
Wang Mou Cheong	—	—
Sun Pishu	—	—
	250	442

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

	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
	HK$'000	*HK$'000*
Salaries and other benefits	2,174	2,512
Retirement benefit scheme contributions	—	—
	2,174	2,512

The emolument of each individual during the Relevant Periods was within the 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

No provision for income tax was made in the Financial Information for each of the Relevant Periods as the Company and its subsidiaries either have no assessable profits or are exempted from income tax for the respective period/year.

The income tax rate of the Group's subsidiaries operating in the PRC is 33% for the Relevant Periods.

Pursuant to the Notice of Ministry of Finance and the State Administrative of Taxation concerning certain preferential policies on enterprise income tax 《財稅[2000]25號財政部、國家稅務總局、海關總署關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》第二條 (Section Two, Notice of Ministry of Finance, the State Administrative of Taxation, China Customs concerning the taxation policy issue on promotion of software industry and integrated circuit industry#), Worldwide Shandong, Worldwide Qingdao and Gaoyou Shanghai, which are recognised as "Software Enterprise", are exempted from PRC income tax for two years starting from their respective first profit-making years, followed by a 50% reduction for the next three years. Worldwide Shandong commenced its first profit-making year in year 2006. Both Worldwide Qingdao and Gaoyou Shanghai did not generate profit since their establishment.

Pursuant to the 《北京市新技術產業開發試驗區暫行條例》(京政發[1988]49號) (Provisional Regulation on Beijing New Technology Industry Development Testing Zone#), Shijie Beijing is exempted from PRC income tax for three years since its establishment, followed by a 50% reduction for the next three years.

On 16 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 6 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 from 33% to 25% for PRC subsidiaries from 1 January 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), the tax exemption is still applicable until the end of the five-year transitional period under the New Law.

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

	13 March 2006 (date of incorporation) to 31 December 2006	**1 January 2007 to 31 December 2007**
	HK$'000	*HK$'000*
Profit before taxation	2,863	12,989
PRC Enterprise Income Tax rate of 33% (Note)	945	4,286
Tax effect of income not taxable for tax purposes	(706)	(650)
Tax effect of expenses not deductible for tax purposes	132	225
Tax effect of tax losses not recognised	979	1,180
Effect of tax exemptions granted to PRC subsidiaries	(1,350)	(5,041)
Taxation for the period/year	—	—

Note: For the Relevant Periods, the PRC Enterprise Income Tax rate is used because the Group's operation is substantially derived by the subsidiaries in the PRC.

As at 31 December 2006 and 2007, the Group has unused tax losses of HK$3,079,000 and HK$6,655,000 respectively available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except for losses of approximately HK$2,305,000 as at 31 December 2006 which will expire in 2011 and HK$2,305,000 and HK$3,308,000 as at 31 December 2007 which will expire in 2011 and 2012 respectively.

12. PROFIT FOR THE PERIOD/YEAR

Profit for the period/year has been arrived after charging:

	13 March 2006 (date of incorporation) to 31 December 2006	1 January 2007 to 31 December 2007
	HK$'000	*HK$'000*
Auditors' remuneration	16	30
Depreciation of property, plant and equipment	1,773	4,562
Loss on disposal of property, plant and equipment	3	139
Operating lease rentals in respect of rented premises	2,855	2,630
Staff costs (including directors' emoluments):		
Salaries, bonus and other allowances	19,034	35,484
Retirement benefits scheme contributions	556	456
	19,590	35,940
Net exchange loss	—	195

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

	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
COST				
On date of incorporation	—	—	—	—
Transfer-in of Worldwide Shandong *(note 25)*	8,133	—	—	8,133
Additions	1,569	337	111	2,017
Disposals	(170)	—	—	(170)
At 31 December 2006	9,532	337	111	9,980
Additions	9,658	1,983	—	11,641
Disposals	(749)	—	—	(749)
Exchange realignment	796	25	8	829
At 31 December 2007	19,237	2,345	119	21,701
DEPRECIATION				
On date of incorporation	—	—	—	—
Provided for the period	1,753	7	13	1,773
Eliminated on disposals	(68)	—	—	(68)
At 31 December 2006	1,685	7	13	1,705
Provided for the year	3,732	811	19	4,562
Eliminated on disposals	(567)	—	—	(567)
Exchange realignment	237	—	1	238
At 31 December 2007	5,087	818	33	5,938
CARRYING VALUES				
At 31 December 2006	7,847	330	98	8,275
At 31 December 2007	14,150	1,527	86	15,763

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:

Furniture, fixtures and equipment	4-5 years
Leasehold improvements	Over the shorter of 3 years or terms of leases
Motor vehicles	5 years

16. INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries represent the Company's interests in unlisted shares or equity investments stated at cost.

17. GOODWILL

	THE GROUP
	HK$'000
COST AND CARRYING AMOUNTS	
On date of incorporation and balance at 31 December 2006	—
Arising on acquisition of additional interest in a subsidiary	1,180
At 31 December 2007	1,180

During the year ended 31 December 2007, the Company acquired the remaining 49% equity interest in Worldwide Qingdao from other shareholder. After the acquisition, Worldwide Qingdao became a wholly owned subsidiary of the Company.

Impairment testing on goodwill

For the purposes of impairment testing, the entire carrying amount of goodwill of approximately HK$1,180,000 at 31 December 2007 has been allocated to the cash generating unit (CGU) of outsourcing software development services in the PRC.

Management of the Group considers cash flow projections which was prepared based on financial budgets and determined that there was no impairment of the CGU containing goodwill as at 31 December 2007.

The recoverable amounts of the CGU of software development have been determined based on a value in use calculation. For the purpose of assessing goodwill impairment, the value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and discount rate of 12.5%. A key assumption for the value in use calculations is the budgeted growth rate ranged from 4.7% to 14%, which is determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its customers. A longer credit period is granted to a few customers with whom the Group has a good business relationship and which are in sound financial condition. The aging analysis of trade receivables is stated as follows:

	THE GROUP As at 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
0 to 60 days	4,926	6,623
61 to 90 days	—	280
91 to 180 days	87	—
181 to 365 days	270	21
	5,283	6,924

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Limits attributed to customers are reviewed twice a year.

Included in the Group's trade receivables balance at 31 December 2006 and 2007 are debtors with aggregate carrying amount of approximately HK$357,000 and HK$301,000 respectively, which are past due at the reporting date for which the Group has not provided for impairment loss as the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 183 days and 86 days as at 31 December 2006 and 2007 respectively.

Aging of trade receivables which are past due but not impaired

	THE GROUP As at 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
61 to 90 days	—	280
91 to 180 days	87	—
181 to 365 days	270	21
Total	357	301

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

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of each trade customer from the date credit was initially granted up to the report date. The directors consider that the concentration of credit risk is limited in view that the customer base is large and unrelated. Accordingly, the directors believe that there is no allowance for bad and doubtful debts required at the balance sheet dates.

19. AMOUNT DUE FROM A SUBSIDIARY

The amount is non-trading in nature, unsecured, interest-free and repayable on demand.

20. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from related companies:

	THE GROUP	
	As at 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
Trading in nature		
A fellow subsidiary	713	46
Non-trading in nature		
Ultimate holding company	10,808	155
Total amounts due from related companies	11,521	201

The Group allows an average trade credit period of 60 days to a fellow subsidiary.

The amount due from ultimate holding company is unsecured, interest-free and repayable on demand.

The aging analysis of the amount due from a fellow subsidiary which is trading in nature is stated as follows:

	THE GROUP	
	As at 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
0 to 60 days	559	46
61 to 90 days	154	—
	713	46

The amount due from a fellow subsidiary has not been past due at the reporting date and the Group has not provided for impairment loss. In determining the recoverability of amount due from a fellow subsidiary, the Group considers any change in the credit quality of the fellow subsidiary from the date credit was initially granted up to the report date.

Amounts due to related companies:

	THE GROUP	
	As at 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
Trading in nature		
A fellow subsidiary	114	—
Non-trading in nature		
Ultimate holding company	10,191	353
Total amounts due to related companies	10,305	353

At 31 December 2006, the Group's amount due to a fellow subsidiary which is trading in nature was aged from 61 to 90 days. The average credit period is 90 days.

Out of the amount due to ultimate holding company at 31 December 2006, RMB7,221,000 was unsecured, bearing interest at 4% per annum and was repayable on 31 July 2007. The remaining amount is unsecured, interest-free and repayable on demand. At 31 December 2007, the entire amount due to ultimate holding company is unsecured, interest-free and repayable on demand.

21. BANK BALANCES AND CASH

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

22. TRADE PAYABLES

All the trade payables aged less than 60 days at the balance sheet dates.

The average credit period on purchase of goods is 60 days.

23. SHARE CAPITAL OF THE COMPANY

	Notes	**Number of shares**	**Share capital**	
		'000	*US$'000*	*HK$'000*
Ordinary shares at US$0.01 each				
Authorised:				
On date of incorporation, at 31 December 2006 and 2007	1	1,000,000	10,000	77,690
Issued:				
1 share allotted and issued on date of incorporation	1	1	—	—
Issued for exchange of the equity interest in Worldwide Shandong	2	120,980	1,210	9,403
Issued at par	3	110,750	1,108	8,608
Issued at premium	4	96,345	963	7,488
Issued by capitalisation of the share premium account	5	153,654	1,536	11,942
At 31 December 2006		481,730	4,817	37,441
Issued at par	6	10,379	104	810
Issued for acquisition of additional equity interest in Worldwide Qingdao	7	15,126	151	1,180
At 31 December 2007		507,235	5,072	39,431

Notes:

1. The Company was incorporated in the Cayman Islands on 13 March 2006 with an authorised share capital of US$10,000,000 divided into 1,000,000,000 shares of US$0.01 each. One share of US$0.01 was issued at par to the subscriber on date of incorporation.

2. Pursuant to the written shareholders' resolutions dated 3 April 2006, the Company issued 120,980,000 ordinary shares of US$0.01 each to the shareholders as consideration for the exchange of the 52.21% equity interest in Worldwide Shandong. Details are set out in note 25.

3. Pursuant to the written shareholders' resolutions dated 3 April 2006, the Company issued and allotted 110,750,000 ordinary shares of US$0.01 each at par to the shareholders with consideration settled in cash.

4. Pursuant to the subscription agreement dated 30 May 2006, the Company issued and allotted 96,345,000 ordinary shares of US$0.01 each for consideration of HK$19,430,000 (equivalent to US$2,500,000).

5. Pursuant to the written shareholders' resolutions dated 2 August 2006, the Company issued and allotted 153,654,000 ordinary shares of US$0.01 each by way of capitalisation from the amount standing to the credit of the share premium account of the Company on 2 August 2006, amounting to HK$11,942,000.

6. Pursuant to the written shareholders' resolutions dated 9 March 2007 and 1 August 2007, the Company issued and allotted 7,335,990 and 3,043,411 ordinary shares of US$0.01 each respectively at par to the independent third parties with consideration settled in cash.

7. Pursuant to the written shareholders' resolutions dated 1 August 2007, the Company issued 15,125,752 ordinary shares of US$0.01 each as consideration for the acquisition of 49% equity interest in Worldwide Qingdao.

24. RESERVES OF THE COMPANY

	Share premium	**Translation reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On date of incorporation	—	—	—	—
Exchange difference on translating to presentation currency and expense recognised directly in equity	—	(16)	—	(16)
Loss for the period	—	—	(1)	(1)
Total recognised expense for the year	—	(16)	(1)	(17)
Shares issued	11,942	—	—	11,942
Capitalisation	(11,942)	—	—	(11,942)
Sub-total	—	—	—	—
At 31 December 2006	—	(16)	(1)	(17)
Exchange difference on translating to presentation currency and income recognised directly in equity	—	85	—	85
Loss for the year	—	—	(2)	(2)
Total recognised income and expense for the year	—	85	(2)	83
At 31 December 2007	—	69	(3)	66

25. TRANSFER-IN OF WORLDWIDE SHANDONG

Worldwide Shandong was established as a Sino-foreign equity joint venture in the PRC on 12 July 2004. Lang Chao Group Limited, through its subsidiaries, held a 93.15% interest in Worldwide Shandong prior to 18 March 2006.

On 18 March 2006, the Company entered into an agreement to exchange with its fellow subsidiaries and the other shareholders of Worldwide Shandong their 93.15% and 6.85%, respectively, interest in Worldwide Shandong (the "Transaction"). The Company issued 89,747,496 ordinary shares of US$0.01 each of the Company and transferred cash of approximately HK$8,824,000 (equivalent to US$1,100,000), which was obtained from another subsidiary of Lang Chao Group Limited by allotment of 110,750,000 ordinary shares of US$0.01 each at par, to the fellow subsidiaries and issued 31,232,504 ordinary shares of US$0.01 each of the Company to the other shareholders. Upon completion of the Transaction, Worldwide Shandong became a wholly owned subsidiary of the Company and the following assets and liabilities of Worldwide Shandong have been consolidated at the then carrying amounts:

	HK$'000
Property, plant and equipment	8,133
Trade receivables	7,461
Other receivables	5,270
Bank balances and cash	2,115
Trade payables	(1,647)
Other payables	(12,662)
Amount due to Lang Chao Group Limited	(14,870)
	(6,200)
Minority interests	(14)
Net liabilities assumed by the Group	(6,214)
Cash transferred to a fellow subsidiary	(8,824)
	(15,038)

	HK$'000
Net cash outflow arising on the Transaction	
Cash transferred to a fellow subsidiary	(8,824)
Bank balances and cash transferred-in	2,115
	(6,709)

26. MAJOR NON-CASH TRANSACTIONS

(a) Pursuant to the written shareholders' resolutions passed on 3 April 2006, the Company has issued 120,980,000 ordinary shares of US$0.01 each to exchange for the 52.21% equity interest in Worldwide Shandong.

(b) Pursuant to the written shareholders' resolutions passed on 1 August 2007, the Company has issued 15,125,752 ordinary shares of US$0.01 each as consideration for the acquisition of the remaining 49% equity interest in Worldwide Qingdao.

27. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	As at 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
Within one year	338	2,927
In the second to fifth year inclusive	—	3,679
	338	6,606

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

28. 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 scheme and cost charged to the consolidated income statement represents contribution paid or payable to the scheme by the Group at rates specified in the rules of the scheme.

29. RELATED PARTY TRANSACTIONS

Details of the amounts due from/to related companies are disclosed on the balance sheet and in notes 19 and 20.

On 18 March 2006, the Company entered into an agreement to exchange with its fellow subsidiaries their 93.15% equity interest in Worldwide Shandong. Details of the Translation are set out in note 25.

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

	13 March 2006 to 31 December 2006	**1 January 2007 to 31 December 2007**
	HK$'000	*HK$'000*
Commission income from fellow subsidiaries	328	7
Provision of outsourcing software development services to fellow subsidiaries	2,456	12,108
Purchases of equipment from a fellow subsidiary	94	786
Interest paid to ultimate holding company	347	274
Rentals paid to a fellow subsidiary	154	246

The directors of the Company consider that the executive directors and the five highest paid individuals are the key management of the Group, whose emoluments have been disclosed in note 10.

(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 31 December 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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

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

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

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 "Inspur Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of entire interests in Langchao Worldwide Services Limited and its subsidiaries (the "ISW Group", together with the Inspur Group hereinafter collectively referred to as the "Enlarged Group") might have affected the financial information presented, for inclusion in Section A in Appendix III to the circular dated 13 June 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page III-3 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 the 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 Inspur 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 Inspur 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
13 June 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 audited consolidated balance sheet of the Group as at 31 December 2007 extracted from the published annual report of the Group as at 31 December 2007 and the audited consolidated balance sheet of Langchao Worldwide Services Limited and its subsidiaries (collectively referred to as the "ISW Group") as at 31 December 2007 extracted from the accountants' report as set out in Appendix II to this circular as if the Acquisition had been completed on 31 December 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 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.

Inspur International Ltd
Consolidated Balance Sheet
For the year ended 31 December 2007

	The Group 31 December 2007	ISW Group 31 December 2007	Pro forma adjustments 31 December 2007	Notes	Unaudited Pro forma Consolidated Balance sheet of the Enlarged Group 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	3,777	15,763			19,540
Goodwill	30,542	1,180	163,466	(b)	195,188
Other intangible assets	12,288	—			12,288
Interests in associates	71,148	—			71,148
	117,755	16,943			298,164
Current assets					
Inventories	56,341	—			56,341
Trade receivables	59,408	6,924			66,332
Prepayments, deposits and other receivables	13,689	2,721			16,410
Amounts due from customers for contracts works	6,136	—			6,136
Amount due from ulitmate holding company	285,171	155			285,326
Amounts due from fellow subsidiaries	37,625	46			37,671
Taxation recoverable	293	—			293
Bank balances and cash	167,236	7,792	(66,243)	(a)	108,785
	625,899	17,638			577,294
Current liabilities					
Trade and bills payables	(122,342)	(1)			(122,343)
Other payables and accrued expenses	(81,273)	(2,858)			(84,131)
Amounts due to customers for contracts works	(2,101)	—			(2,101)
Amounts due to fellow subsidiaries	(65,304)	—			(65,304)
Amount due to ultimate holding company	(3,646)	(353)			(3,999)
Taxation payable	(480)	—			(480)
	(275,146)	(3,212)			(278,358)
Net current assets	350,753	14,426			298,936
Total assets less current liabilities	468,508	31,369			597,100

	The Group 31 December 2007 HK$'000	ISW Group 31 December 2007 HK$'000	Pro forma adjustments 31 December 2007 HK$'000	Notes HK$'000	Unaudited Pro forma Consolidated Balance sheet of the Enlarged Group 31 December 2007 HK$'000
Capital and Reserves					
Share capital	(5,861)	(39,431)	39,328	(a) (c)	(5,964)
Reserves	(268,793)	8,062	(78,100)	(a) (c)	(338,831)
	(274,654)	(31,369)			(344,795)
Minority interest	(8,942)	—			(8,942)
Total equity	(283,596)	(31,369)			(353,737)
Non-current liabilities					
Deferred tax liabilities	(3,072)	—			(3,072)
Redeemable convertible preferred shares	(181,840)	—			(181,840)
Derivative financial instruments	—	—	(14,621)	(a)	(14,621)
Convertible notes	—	—	(43,830)	(a)	(43,830)
	(184,912)	—			(243,363)
	(468,508)	(31,369)			(597,100)

Notes:

(a) The Acquisition by the Group of the entire interest in ISW Group for a total consideration of HK$194,835,000 is to be satisfied by (1) HK$66,243,900 by the payment of cash, (2) HK$70,140,600 by the issue of 51,471,029 new ordinary shares of HK$0.002 each at an issue price of HK$1.36272 as stated in the Acquisition Agreement, result in increase in share capital of HK$102,942 and increase in share premium of HK$70,037,658, and (3) HK$58,450,500 by the issue of zero-coupon Convertible Notes with 30-month maturity.

The market value of the shares to be issued by the Company as part of the consideration for the Acquisition is subject to changes upon completion of the Acquisition.

Convertible Notes to be issued by the Group, in accordance with Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" contain two elements, liability element and conversion option derivative. The conversion option derivative will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. For the purpose of this unaudited pro forma consolidated balance sheet, the directors of the Company have determined the fair value of liability element and conversion option derivative amounting to approximately HK$43,830,000 and HK$14,620,500 respectively. On completion of the Acquisition, the fair value of liability element and conversion option derivative of Convertible Notes will have to be reassessed. As a result of the reassessment, their respective fair values may be different from the estimated amount as shown above.

(b) Goodwill is determined based on the consideration of HK$194,835,000 and the carrying amount of the identifiable assets, liabilities and contingent liabilities of ISW Group to be acquired by the Group as at 31 December 2007, as set out in Appendix II to this circular. For the purpose of this unaudited pro forma consolidated balance sheet, it is assumed that the fair value of the identifiable 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 identifiable assets, liabilities and contingent liabilities of ISW Group 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.

(c) Elimination of share capital of HK$39,431,000 and pre-acquisition reserves of HK$8,062,000 of ISW Group as at 31 December 2007.

The following is the text of accountants' report on the Intersource Group as extracted from the circular of the Company dated 29 February 2008 in relation to the Intersource Acquisition (terms used herein shall have the same respective meanings as those defined in the original circular):

(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

	Notes	As at 31st December, 2005 RMB'000	2006 RMB'000	2007 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)

	For the year ended 31st December,		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	10,708	13,627	46,309
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.

The following is the text of accountants report on Intersource Technology Limited as extracted from the circular of the Company dated 29 February 2008 in relation to the Intersource Acquisition (terms used herein shall have the same respective meanings as those defined in the original circular):

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	Year ended 31st December, 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, 2005	Year ended 31st December, 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.

The following is the text of accountants' report on the audited pro forma financial information of the Enlarged Intersource Group as extracted from the circular of the Company dated 29 February 2008 in relation to the Intersource Acquisition (reference to page numbers in the accountants' report is to the page numbers in the aforesaid circular and terms used used herein shall have the same respective meanings as those defined in the original circular):

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 III-3 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 30 June 2007 HK$'000	Intersource 31 December 2007 HK$'000	LC GenerSoft 31 December 2007 HK$'000	Pro forma adjustments 31 December 2007 HK$'000	Notes	Unaudited pro forma consolidated balance sheet of Enlarged Group 30 June 2007 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 31 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. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were, immediately upon Completion of the issue of Consideration Shares (assuming that there is no change from the current shareholding structure) and after full conversion of the Convertible Notes at the conversion price of HK$1.36272 will be, as follows:

As at the Latest Practicable Date

Authorised share capital		*HK$*
5,000,000,000	Shares	10,000,000.00
Issued and fully paid share capital or credited as fully paid:		*HK$*
3,030,500,000	Shares of nominal value HK$0.002 each	6,061,000.00
234,279,559	Preferred Shares of nominal value HK$0.01 each	2,342,795.59
		8,403,795.59

Upon completion of the issue of Consideration Shares

Issued and fully paid share capital or credited as fully paid:		*HK$*
3,030,500,000	Shares	6,061,000.000
51,471,029	Consideration Shares	102,942.058
3,081,971,029	Shares	6,163,942.058
234,279,559	Preferred Shares	2,342,795.590
		8,506,737.648

Upon full conversion of the Convertible Notes

Issued and fully paid share capital or credited as fully paid:		*HK$*
3,030,500,000	Shares	6,061,000.000
51,471,029	Consideration Shares	102,942.058
42,892,524	Conversion Shares	85,785.048
3,124,863,553	Shares	6,249,727.106
234,279,559	Preferred Shares	2,342,795.590
		8,592,522.696

All the issued Shares in the capital of the Company rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Consideration Shares and Conversion Shares to be allotted and issued will, when issued and credited as fully paid, rank *pari passu* in all respects with the then existing Shares. The Company has no debt securities in issue as at the Latest Practicable Date.

The 234,279,559 Preferred Shares have been attached with rights of conversion to 1,171,397,795 Shares (on the basis of every Preferred Share being attached with right of conversion to five Shares). Holder of each Preferred Share shall be entitled to have five votes on a show of hands or five votes for each Preferred Share as if each Preferred Share registered in its name in the register of members of the Company had been converted into five Shares at the time of any general meeting of the Company. In addition, in the event that the holder of Preferred Shares becomes entitled to exercise or control the exercise of more than 28% of the voting rights at general meetings of the Company (other than meeting of the holder(s) of Preferred Shares), it shall not and shall procure its nominee(s) not to exercise such portion of the voting rights attaching to the Preferred Shares and/or Shares in excess of 28% of the total voting rights at any general meeting of the Company.

As at the Latest Practicable Date, there are outstanding 398,150,000 Options attached with rights of conversion to 398,150,000 shares. Save as above mentioned, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. 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 derivatives *(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 and the chief executive, 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 expected, directly or indirectly, to be 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 *(Note 2)*	Interest in a controlled corporation *(Note 1)*	1,352,130,000	44.62%
Inspur Electronics (HK) Limited *(Note 3)*	Beneficial owner	1,352,130,000	44.62%

Note 1: Inspur Group Limited is taken to be interested in 1,352,130,000 Shares because it is 100% shareholder in the issued share capital of Inspur Electronics (HK) Limited.

Note 2: Mr. Sun Pishu and Mr. Xin Wei Hua, who are directors of the Company, are also directors of Inspur Group Limited.

Note 3: Mr. Sun Pishu, Mr. Wang Miao, Mr. Xin Wei Hua and Mr. Wang Hung, Alex, who are directors of the Company, are also directors of Inspur Electronics (HK) Limited.

Long positions in the preferred shares

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

Note 1: Holder of each Preferred Share shall be entitled to have five votes on a show of hands or five votes for each Preferred Share as if each Preferred Share registered in its name in the register of members of the Company had been converted into five Shares at the time of any general meeting of the Company. Microsoft Corporation has agreed that in the event that it becomes entitled to exercise or control the exercise of more than 28% of the voting rights at general meetings of the Company (other than meeting of the holder(s) of Preferred Shares), it shall not and shall procure its nominee(s) not to exercise such portion of the voting rights attaching to the Preferred Shares and/or Shares in excess of 28% of the total voting rights at any general meeting of the Company. At the Latest Practicable Date, the above 1,171,397,795 underlying Shares represented approximately 27.88% of the issued share capital of the Company as enlarged by the full exercise of the conversation rights attaching to the Preferred Shares.

Long positions in members of the Enlarged Group

Name of shareholders	Type of Interest	Equity interest held	Approximate percentage of shareholding in the members of the Enlarged Group
Shandong Inspur Cheeloosoft Company Limited	Beneficial owner	RMB19,442,624.48 in the registered capital of Inspur Group Shandong Genersoft Incorporation	48.69%
Shandong Inspur Cheeloosoft Company Limited	Beneficial owner	RMB7,000,000 in the registered capital of Shandong Langchao Electronic Business Software Company Limited	46.67%
Shanghai Huili Co. Ltd.# (上海滙力有限公司)	Beneficial owner	RMB50,000 in the registered capital of Shanghai Guoqiang Genersoft Incorporation	10%

English name is for identification purpose only

Name of shareholders	Type of Interest	Equity interest held	Approximate percentage of shareholding in the members of the Enlarged Group
Wang Xingshan	Beneficial owner	RMB300,000 in the registered capital of Inspur Guangdong Genersoft Technology Incorporation	10%
Webgroup Co.	Beneficial owner	US$14,504 in the registered capital of Langchao Gaoyou (Shanghai) Services Incorporation# 高優(上海)信息科技有限公司	10.36%

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 expected, directly or indirectly, to be 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.

4. DIRECTORS' OTHER INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves 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 2007, 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.

 # English name is for information only

5. 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.

6. SERVICE CONTRACTS

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

7. 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 2007, being the date to which the latest audited financial statements of the Company were made up.

8. 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 report 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 2007), 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.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group during the 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 agreement executed in 2007 between the Target as purchaser and Dico Jp as vendor in relation to 49% equity interest in Langchao Worldwide (Qingdao) Services Incorporation at a consideration of about HK$1,180,000 settled by issue of 15,125,752 shares of the Target;

(c) 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;

(d) 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 acquisition of the entire issued share capital of Shine Victory International Limited and 51% equity interest in Inspur Communication Information System Limited at a consideration of RMB88,000,000 (subject to adjustment);

(e) the sale and purchase agreement dated 18 December 2007 between the Company as purchasers and Total Charm Investments Limited as vendor in relation to the Intersource Acquisition at a consideration of RMB35,079,000 (subject to adjustment);

(f) 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;

(g) the sale and purchase agreement dated 19 February 2008 between Jinan Inspur Network Technology Development Limited as vendor and Inspur (Shandong) 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); and

(h) the Acquisition Agreement.

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.

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 (山東省資訊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 2007;

(d) the accountants' report from Deloitte Touche Tohmatsu as set out in Appendix II 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 25 to 39 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 pages 23 to 24 of this circular;

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

(i) the circular of the Company dated 29 February 2008 in relation to the Intersource Acquisition;

(j) the circular of the Company dated 11 March 2008 in relation to the acquisition of 60% equity interest in Shandong Inspur Business System Company Limited; and

(k) the circular of the Company dated 11 April 2008 in relation to the continuing connected transactions pursuant to the master agreement dated 10 March 2008 between Inspur Group Limited and Inspur Group Shandong Genersoft Incorporation and the processing agreement dated 10 March 2008 between Inspur Cheeloo Company Limited and Shandong Inspur Business System Company Limited.

INSPUR INTERNATIONAL LIMITED
浪潮國際有限公司*

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of Inspur International Limited (the **"Company"**) will be held at 10:00 a.m. on Monday, 30 June 2008 at Hong Kong International Trade & Exhibition Centre, Meeting Room 5, 7th Floor, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) the conditional acquisition agreement dated 5 May 2008 (the "**Acquisition Agreement**", entered into between (i) Inspur International Limited as purchaser; and (ii) Inspur Electronics (HK) Limited and Accord Star Limited as vendors in relation to the acquisition of the entire issue share capital of Langchao Worldwide Services Limited, at the consideration of HK$194,835,000 comprising : (i) HK$66,243,900 Payment Consideration (as defined in the Company's circular dated 13 June 2008 (the "**Circular**"); (ii) HK$70,140,600 by issue and allotment of the Consideration Shares (as defined and more particularly described in the Circular); and (iii) HK$58,450,500 by issuing the Convertible Notes (as defined and more particularly described in the Circular) with no coupon and 30-month maturity (copies of the Acquisition Agreement and the Circular have been tabled at the meeting and marked "A" and "B" and initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the directors of the Company (the "**Directors**") be and they are hereby authorised to allot and issue the Consideration Shares (as defined and more particularly described in the Circular), credited as fully paid, pursuant to the terms of the Acquisition Agreement, such Consideration Shares shall rank pari passu in all respects with the existing ordinary shares of the Company in issue at the date of allotment of the Consideration Shares;

(c) the creation and issue of the Convertible Notes (as defined and more particularly described in the Circular) as set out in the Circular, on and subject to the terms of the Acquisition Agreement, be and is hereby approved;

(d) the Directors be and they are hereby authorised to allot and issue such number of new shares in the capital of the Company as may be allotted and issued upon the exercise of conversion rights attaching to the Convertible Notes in full; and

(e) the Directors be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement, the issue of the Consideration Shares and the issue of the Convertible Notes or any of the transactions contemplated under the Acquisition Agreement.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 13 June 2008

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

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.