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浪潮國際有限公司*

INSPUR INTERNATIONAL LIMITED

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



INTERIM REPORT

2008

* For identification purpose only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 no assurance is given that there will be a liquid market in the securities traded on GEM.

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

The board of Directors (the "Board") of Inspur International Limited (the "Company") present the unaudited consolidated results (the "Unaudited Consolidated Results") of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2008 together with comparative unaudited figures for the corresponding period in 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Revenue	2	514,740	118,106	748,916	221,752
Cost of sales		(387,528)	(107,172)	(549,306)	(210,271)
Gross profit		127,212	10,934	199,610	11,481
Other income		24,961	538	32,967	746
Administrative expenses		(34,753)	(6,528)	(57,309)	(12,505)
Other operating expenses		(641)	–	(1,813)	–
Interest expenses		(3,626)	(3,587)	(7,251)	(7,159)
Share of profit less loss of associates		1,033	2,045	2,429	2,196
Profit/(loss) before taxation	4	114,186	3,402	168,633	(5,241)
Taxation	5	(12,612)	–	(18,541)	–
Net profit/(loss) for the period		101,574	3,402	150,092	(5,241)
Attributable to:					
Equity holders of the Company		88,404	3,572	130,567	(4,683)
Minority interests		13,170	(170)	19,525	(558)
		101,574	3,402	150,092	(5,241)
Earnings/(loss) per share	6				
Basic		2.92 cents	0.14 cents	4.33 cents	(0.18) cents
Diluted		2.01 cents	N/A	3.02 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		47,274	3,777
Goodwill		56,216	30,542
Other intangible assets		10,474	12,288
Interests in associates		568	71,148
		114,532	117,755
Current assets			
Inventories		72,936	56,341
Trade receivables	8	180,079	59,408
Prepayments, deposits and other receivables		47,045	13,689
Amounts due from customers for contract work		80,346	6,136
Amount due from related companies	8	87,608	37,625
Amount due from a holding company	8	148,771	285,171
Taxation recoverable		-	293
Bank balances and cash		432,543	167,236
		1,049,328	625,899
Current liabilities			
Trade payables	9	178,254	122,342
Other payables and accrued expenses		58,640	81,273
Amounts due to customers for contract work		12,670	2,101
Amount due to related companies	9	57,355	65,304
Amount due to a holding company	9	482	3,646
Taxation payable		8,770	480
		316,171	275,146
Net current assets			
		733,157	350,753
Total assets less current liabilities			
		847,689	468,508
Non-current liabilities			
Deferred income		715	-
Redeemable convertible preferred shares	10	183,263	181,840
Deferred tax liabilities		2,854	3,072
		186,832	184,912
		660,857	283,596
Capital and reserves			
Share capital	11	6,061	5,861
Reserves		551,042	268,793
		557,103	274,654
Minority interests			
		103,754	8,942
Total equity			
		660,857	283,596

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Special Reserve	Preferred shares equity reserve	Share option reserve	Translation reserve	Retained profits (loss)	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 2007	5,143	73,531	92	17,438	-	8,422	53,501	158,127	6,718	164,845
Exchange differences arising from translation of overseas operation	-	-	-	-	-	8,835	-	8,835	-	8,835
Loss for the period	-	-	-	-	-	-	(4,683)	(4,683)	(558)	(5,241)
Total recognise profit (loss) for the period	-	-	-	-	-	8,835	(4,683)	4,152	(558)	3,594
Dividend	-	-	-	-	-	-	(7,715)	(7,715)	-	(7,715)
At 30 June 2007	5,143	73,531	92	17,438	-	17,257	41,103	154,564	6,160	160,724
At 1 January 2008	5,861	125,741	92	17,438	10,937	29,998	84,587	274,654	8,942	283,596
Exchange differences arising from translation of overseas operation	-	-	-	-	-	29,864	-	29,864	857	30,721
Profit for the period	-	-	-	-	-	-	130,567	130,567	19,525	150,092
Total recognise profit (loss) for the period	-	-	-	-	-	29,864	130,567	160,431	20,382	180,813
Placing of new shares	200	124,800	-	-	-	-	-	125,000	-	125,000
Transaction costs attributable to Placing of new shares	-	(3,800)	-	-	-	-	-	(3,800)	-	(3,800)
Recognition of equity-settled Share-based payments	-	-	-	-	818	-	-	818	-	818
Minority interest in a subsidiary Acquired	-	-	-	-	-	-	-	-	74,430	74,430
At 30 June 2008	6,061	246,741	92	17,438	11,755	59,862	215,154	557,103	103,754	660,857

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	128,887	73,950
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	982	(77)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	118,291	(7,715)
NET INCREASE IN CASH AND CASH EQUIVALENTS	248,160	66,158
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	167,236	148,158
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	17,147	3,686
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	432,543	218,002

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The condensed financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

2. REVENUE

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group, less discounts, returns and allowances.

3. SEGMENT INFORMATION

Business segment

The Group is currently organized into three operating divisions, namely trading of computer components, trading of computer and sales of IT services. Segment information about these businesses is presented below:

	Income statement for the six months ended 30 June 2008			
	Trading of Computer components HK\$'000	Trading of computer HK\$'000	Sales of IT services HK\$'000	Total HK\$'000
Revenue	<u>184,108</u>	<u>139,687</u>	<u>425,121</u>	<u>748,916</u>
Segment results	<u>15,269</u>	<u>10,798</u>	<u>131,089</u>	157,156
Unallocated income				14
Unallocated corporate expense				(3,240)
Share of results of associates	–	–	2,429	2,429
Interest expenses				<u>(7,251)</u>
Profit before taxation				<u>149,108</u>
Taxation				<u>(18,541)</u>
Profit for the period				<u>130,567</u>

3. SEGMENT INFORMATION (Continued)**Business segment** (Continued)

	Income statement for the six months ended 30 June 2007			
	Trading of Computer components	Trading of computer	Sales of IT services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	182,444	18,993	20,315	221,752
Segment results	(356)	5,865	(3,418)	2,091
Unallocated income				4
Unallocated corporate expense				(1,815)
Share of results of associates	-	-	2,196	2,196
Interest expenses				(7,159)
Loss before taxation				(4,683)
Taxation				-
Profit for the period				(4,683)

Geographical segment

The Group's operations are currently carried out in the PRC and Hong Kong. The following table provides an analysis of the Group's turnover by location of markets for the six months ended 30 June 2008, irrespective of the origin of the goods/services:

	Sales revenue by geographical market 30 June	
	2008 HK\$'000	2007 HK\$'000
Hong Kong	184,108	182,444
The PRC	564,808	39,308
Consolidated	748,916	221,752

4. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Profit before taxation has been arrived at after charging:				
Cost of inventories recognised as expenses	363,261	107,115	517,799	210,214
Depreciation	4,681	179	6,571	355
Amortisation of other intangible assets	641	–	1,813	–

5. TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Current tax:				
Hong Kong	1,501	–	2,519	–
PRC Enterprise Income Tax	11,188	–	16,240	–
Deferred taxation	(77)	–	(218)	–
	12,612	–	18,541	–

Hong Kong profits tax has been provided at 16.5% on the estimated assessable profits for the period. Enterprise income tax rates applicable to the Group's subsidiaries in the PRC are ranging from 10% –25%, and have been applied to calculate the Group's PRC Enterprise Income Tax in accordance with relevant laws and regulations in the PRC.

6. EARNINGS/(LOSS) PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Earnings				
Earnings/(loss) for the purpose of basic earnings/(loss) per share (Profit/(loss) for the period attributable to equity holders of the parent)	88,404	3,572	130,567	(4,683)
Interest on redeemable convertible preferred shares	3,626	3,587	7,251	7,159
Earnings for the purpose of diluted earnings/(loss) per share	92,030	7,159	137,818	2,476
Number of shares (in thousand)				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	3,030,500	2,571,500	3,018,412	2,571,500
Effect of dilutive potential ordinary shares				
- share options	366,737	175,464	369,780	175,464
- redeemable convertible preferred shares	1,171,398	1,171,398	1,171,398	1,171,398
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	4,568,635	3,918,362	4,559,590	3,918,362

The weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share for the three months and six months ended 30 June 2007 have been adjusted for the share subdivision which took effect on 14 December 2007.

7. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

8. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days to its customers.

An aged analysis of trade receivables, amounts due from related companies and a holding company at the balance sheet date is as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Trade receivables		
0–30 days	87,299	22,809
31–60 days	32,127	15,713
61–90 days	14,487	5,704
91–120 days	8,886	911
Over 90 days	37,280	14,271
	180,079	59,408
	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Amounts due from related companies		
0–30 days	61,362	26,595
31–60 days	10,213	735
61–90 days	3,132	161
91–210 days	12,901	10,134
	87,608	37,625
	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Amounts due from a holding company		
0–30 days	148,618	144,170
31–60 days	63	30,202
61–90 days	90	51,860
91–210 days	–	58,939
	148,771	285,171

9. TRADE PAYABLES

Average credit period taken for trade purchases is up to 30 to 90 days. The following is an aged analysis of trade payables and amount due to related companies and a holding company for the purchase of goods and services at the balance sheet date:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Trade payables		
0–30 days	142,105	95,914
31–60 days	8,227	17,656
61–90 days	6,307	2,028
Over 90 days	21,615	6,744
	178,254	122,342
	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Amounts due to related companies		
0–30 days	42,789	65,304
31–60 days	5,352	–
61–90 days	298	–
Over 90 days	8,916	–
	57,355	65,304
	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Amounts due to a holding company		
0–30 days	437	–
31–60 days	39	3,646
61–90 days	–	–
Over 90 days	6	–
	482	3,646

10. REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Company issued 132,964,342 and 101,315,217, 6% Preferred Shares at 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 has the right to convert the Preferred Shares, at any time from the date of allotment of the Preferred Shares and up to 7 December 2011 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 until the settlement date. The details of terms of the Preference Shares are set out in the Company's circular dated 28 October 2005.

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

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

	30.6.2008	31.12.2007
	HK\$'000	HK\$'000
Carrying amount at the beginning of the period/year	181,840	179,274
Interest charges	7,251	14,287
Coupon interest paid	(2,914)	(11,721)
Coupon interest payable included in other payables and accrued expenses	(2,914)	—
	183,263	181,840

11. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares		
Authorised:		
At 1 January 2007 and 30 June 2008	1,000,000	10,000
Issued:		
At 1 January 2007	514,300	5,143
Placing of new shares	50,000	500
Share subdivision	2,257,200	–
Exercise of share options	109,000	218
At 31 December 2007	2,930,500	5,861
Placing of new shares (<i>note a</i>)	100,000	200
At 30 June 2008	3,030,500	6,061

Notes:

- (a) On 22 January 2008, the Company completed a placing of 100,000,000 ordinary shares at HK\$1.25 per share to certain institutional investors.

All shares issued during the period rank *pari passu* with the then existing shares in all respects.

12. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in the condensed consolidated balance sheet, the Group had entered into the following related party transactions during the period:

	Note	Six months ended	
		30 June 2008 HK\$'000	30 June 2007 HK\$'000
Sales of computer components	(i), (b)	61,672	44,718
Sales of computer products	(ii), (a)	139,687	28,684
Purchase of goods	(iii), (b)	84,970	11,000
Commission paid	(iv), (b)	32	8
Sales of IT services	(v), (c)	16,596	–
Payment of management fees	(vi), (a)	1,625	–
IT services fee	(vii), (b)	2,646	–

Notes:

- (i) Computer components were sold to certain related companies at cost plus not less than 1.5%.
 - (ii) Computers were sold to a related company at prices mutually agreed in accordance with the master supply agreement.
 - (iii) Goods were purchased from related companies at price mutually agreed by arm's length negotiation, on terms no less favourable than the Group can seek from independent third parties.
 - (iv) Commissions paid to a related company at 1% of the contract price with ultimate customers.
 - (v) Orders were referred by a related company to the Group, at 99% of the contract price with ultimate customers.
 - (vi) Management fees were charged by the related company on actual basis for use of common services, save for the rental element was determined and agreed by arm's length negotiation with the related company with reference to market rate of nearby properties.
 - (vii) IT services fee was charged to a related company at the standard chargeable rate charged to third parties.
- (a) Related parties transactions entered into with Inspur Group, an entity that has significant influence over the Company.
 - (b) These transactions were entered into with certain subsidiaries of Inspur Group.
 - (c) These transactions were entered into with Inspur Group and certain subsidiaries of Inspur Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period, with the consolidation of the newly acquired businesses, the Group has been transformed from a computer components and computer trading company to an integrated IT services provider with services covering taxation, finance, ERP, telecommunication and e-government sectors. Revenue from IT services soared significantly during the period, accounted for approximately 56.76% of the Group's revenue. The success in business transformation boosted the revenue and operating results of the Group, and laid a solid foundation for the Group's future development. The interim result of the Group is characterized by the following trend:

(1) *Rapid growth of revenue*

Riding on the leading position of the Group in IT services in the PRC, the Group recorded a turnover of HK\$748,916,000 (2007: HK\$221,752,000), increased by 237.72%, during the period. This was mainly attributable to the increase in revenue from IT services, especially in the ERP and financial sectors, and the newly acquired business of manufacturing of tax-collection cashier machines, software development and maintenance for telecommunication system and network, which bolstered the rapid growth of the Group's revenue.

(2) *Sharp increase in operating results*

Sharp increase in revenue and operating profits were noted as a result of the success in transformation of the Group's business. Gross profit was HK\$199,610,000 (2007: HK\$11,481,000) with gross margin of 26.65% (2007: 5.17%). Profit attributable to shareholders was HK\$130,567,000 (2007: loss of (HK\$4,683,000)). Earnings per share and diluted earnings per share were HK\$4.33 cents (2007: loss per share of (HK\$0.18 cents)) and HK\$3.02 cents (2007: not applicable) respectively.

Sharp increase in gross profit margin and profit attributable to shareholders was mainly due to the change in sale mix in the current period. Revenue from IT services, which yielded higher margin than trading of computer components and computer products, was increased significantly and accounted for 56.76% of the Group's revenue.

(3) *Strong cash flow and sound liquidity*

As at 30 June 2008, shareholders' funds amounted to approximately HK\$557,103,000 (31 December 2007: HK\$274,654,000). Current assets were approximately HK\$1,049,328,000, including cash and bank balances of HK\$432,543,000 which were mainly bank deposits denominated in Renminbi, US dollars and Hong Kong dollars within three months of maturity when acquired.

Current liabilities were approximately HK\$316,171,000, mainly comprised of trade payable, other payables and accrued expenses, amount due to fellow subsidiaries and taxation payable. As at 30 June 2008, the Group's current assets were 3.32 times (31 December 2007: 2.27 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2008 (31 December 2007: Nil). Gearing ratio of the Group, calculated as total interest-bearing borrowings divided by shareholders' equity, was 0.28 (31 December 2007: 0.64).

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

Capital structure

The Group finances its operations mainly from shareholders equity, internal generated funds and the 6% redeemable convertible preferred shares held by Microsoft Corporation.

On 22 January 2008, the Company completed a placing of 100,000,000 new ordinary shares at HK\$1.25 per share to certain institutional investors and received net proceeds of approximately HK\$121,200,000.

Material acquisitions

Pursuant to an acquisition agreement dated 18 December 2007 and completed during the period, the Group has acquired an additional 21.26% equity interests in Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft"), a company principally engaged in the development and distribution of enterprise resources planning products ("ERP") and offering all-round services for enterprise informatization, at a consideration of RMB35,079,000.

Pursuant to an acquisition agreement dated 19 February 2008 and completed during the period, the Group has acquired an additional 60% of the registered capital of Shandong Inspur Business System Company Limited ("Inspur BS"), a company principally engaged in the development, production and sale of computer software and computer peripherals particularly computerized cashier machines and point-of-sale terminals, and the provision of relevant information technology solution services, at a consideration of RMB36,000,000.

Pursuant to an acquisition agreement dated 5 May 2008, the Group has acquired the 100% equity interests in Langchao Worldwide Services Limited ("Inspur SW"), a company principally engaged in the provision of software outsourcing services. Completion of the acquisition took place subsequently on 3 July 2008. The results of Inspur SW will be consolidated to the Group's financial statements starting from July 2008.

Employee information

At 30 June 2008, the Group had 1,619 (31 December 2007: 605) employees. Increase in number of employees was mainly attributable to the newly acquired subsidiaries during the period. Total of employee remuneration, including that of the Directors and mandatory provident funds contributions, amounted to approximately HK\$22,374,000 (2007: HK\$6,367,000) for the period under review.

Employees are remunerated according to their performance and experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employees with reference to the Group's and the employee's performance.

Charges on assets

As at 30 June 2008, none of the Group's assets was pledged (31 December 2007: Nil).

Foreign exchange exposure

The Group's sales and purchase were mainly denominated in United States Dollars and Renminbi during the period. The Group did not use any derivative instruments to hedge against its currency exposures. The Directors believe that with its sound financial position, the Group is able to meet its foreign exchange liabilities as and when they become due.

Contingent liabilities

As at 30 June 2008, the Group had no material contingent liabilities (31 December 2007: Nil).

BUSINESS REVIEW

Through a series of strategic acquisition, the Group has acquired from its controlling shareholder the IT services business covering taxation, finance, ERP, telecommunication and e-government sectors. Such IT services business has been set up by the controlling shareholder with stable and diversified sale network and client base within and outside PRC after years of operation and management. The Group believes that as a guiding principle "customers are strategic asset", and takes priority and emphasis for customer relationship management. Revenue growth of the Group springs not only from the increase in demand of existing customers, but also from the active exploitation of new markets and customers. The successful customer relationship management has led to a remarkable result of the Group.

During the period, the Group continued to consolidate the business of the newly acquired subsidiaries. With the advantage of synergy, the Group has secured a leading position in IT services in the PRC market.

(1) IT services

The Group's IT services are positioned at taxation, finance, ERP, telecommunication and e-government sectors. Services provided by the Group include IT consultation, hardware procurement, application software, system integration, operation maintenance and IT outsourcing services.

Taxation

During the period, the Group's revenue from IT services for taxation sector increased by 814% compared with last period. During the period, the Group completed the acquisition of Shandong Inspur Business System Company Limited ("Inspur BS"), and has entered the market of provision of IT services to taxation sector in the PRC. Services provided by the Group include the provision of tax-collection cashier machines, tax-collection software and solution for tax-collection. The tax-collection cashier machine market in PRC has an enormous potential. The Group has won the bid for 6 out of 8 provinces and cities in which the tax bureau made tender for tax-collection cashier machines. Tenders for the remaining provinces and cities are estimated to be made in the coming three years. According to the statistic of China Center for Information Industry Development ("CCID"), market size for tax-collection cashier machines in the coming 3 years is estimated at around RMB30 to RMB40 billion in the PRC. Sale of tax-collection cashier of the Group in the PRC has been ranked no.1 in terms of sales volume for five consecutive years, with a leading market share of approximately 25%. Tax-collection cashier machines and IT services for taxation will provide long term and stable momentum for the Group's results.

Finance

Revenue from IT services for finance sector grew significantly by 593% as compared with last period. Growing trend was secured within the existing client base which included China Construction Bank, Agricultural Bank of China, China Merchant Bank, Bank of China and Bank of Communication ... etc. In addition, the Group was success in exploiting the new insurance sector. During the period, the Group won a bid for the queuing management system project of China Life Insurance Company Limited. Also, with the improving customer service system, the Group's IT operation and maintenance services for finance sector has been developed to cover more than 10 provinces and cities in the PRC, including Shandong province, Henan province and Beijing city.

ERP

During the period, revenue from ERP increased by 109%

Benefited from the technical cooperation with Microsoft Corporation, in research and development side, the Group has launched the upgraded PS10 and GS5.0 softwares, which greatly enhanced the ability of the Group's ERP in project implementation, shortened project time and reduced cost significantly.

Taking advantage of the advance research and development capability and better project management, the Group continued to maintain a leading position and entered into software development and maintenance agreements with China Petroleum & Chemical Corporation, China Grain Reserves Corporation, China Weapon Industry Corporation, China Railway Engineering Corporation and China Faw Group Corporation. Repaid growth in income stream from ERP was secured.

Telecommunication

During the period, revenue from telecommunication increased by 124%.

The Group had made good progress in IT services for telecommunication sector during the period. One reason is that the telecommunication companies increased their investment budget because of the stimulation of the Olympic Games. Secondly, the 3G mobile network was launched in the PRC, which brought new opportunity and demand of IT services in the market. Furthermore, the Group actively exploited opportunity in the market, and won the tenders for certain large scale projects within and outside PRC including network maintenance contracts with certain national telecommunication company of the Republic of Sudan and Sri Lanka, and OSS contracts with Gansu China Mobile Limited and network enhancement contract with Jiangsu and Hunan China Mobile Limited. The Group's OSS projects covers 14 provinces of China Mobile Limited in the PRC, 5 provinces of China Unicom Limited and certain provinces and cities of China Netcom Group Corporation and China Telecom Corporation Limited.

e-Government

During the period, revenue from e-Government increased significantly. Market of e-Government expanded rapidly because of increase in investment of the PRC Government.

Benefited from the technical cooperation with Microsoft Corporation and the leading position in the market, the Group has secured e-government approval projects with 40 (out of a total of 400) cities in the PRC. The Group plans to increase the market share to 100 cities, accounted for 25% market share, in three years' time.

IT outsourcing

Subsequent to the balance sheet date, on 3 July 2008, the Group completed the acquisition of Langchao Worldwide Services Limited ("Inspur WS") which is engaged in the business of software outsourcing. According to the statistic of International Association of Outsourcing Professionals, market share of Inspur WS's software outsourcing ranked within no. 38 among the "Global Outsourcing 100". There are great potential and prospect of development for software outsourcing business in the PRC. The acquisition of software outsourcing business in the Group has added another growth driver to the Group's IT services.

(2) Trading of computer

The Group's trading of computer were made primarily to customers outside the PRC. Sales of computer were mainly to customers in South America and had stable growth during the period, amounted to HK\$139,687,000, increased by 635% as compared with last period. Revenue from trading of computer accounted for 18.65% of the Group's total revenue. The growth in sales of computer can also supplement and secure the growth of the Group's IT services by providing a customer base, network and access to the introduction of the Group's IT services.

(3) Trading of computer components

During the period, revenue from trading of computer components was HK\$184,108,000, which accounted for 24.58% of the Group's total revenue.

PROSPECT

With the business consolidation and transformation, the Group's capability of technical research and development and its ability of market exploitation have been enhanced significantly. Also, the Group has shifted its core business from trading of computer components and computer products to provision of IT services. The operation of IT services has started making contribution to the Group's results, and led to a remarkable increase in revenue and profit of the Group during the period.

The growth pace of IT services market in the PRC market is expected to be fastened in the coming three to five years, and outpace the GDP growth in the PRC. The Group's IT services have been well positioned amid the favourable PRC macro economy environment. Taking the advantages of its market leading position and with an established client base in taxation, finance, ERP, telecommunication and e-government sectors in the PRC, the Group will seek to further increase its investment in IT services and continue to exploit markets within and outside the PRC in order to preserve its leading position in IT services, to enhance profitability and investment returns and create value to its shareholders.

The Company has applied migration of its listing from GEM Board to the Main Board. Such a strategic move will have important impact in propelling the Group's future development.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 30 June 2008, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Name of Directors	Type of interests	Number of securities	Number of interests
Wang Miao	Beneficial owner	75,000,000	2.47%
Wang Hung, Alex	Beneficial owner	75,000,000	2.47%

(B) LONG POSITIONS IN UNDERLYING SHARES OF EQUITY DERIVATIVES OF THE COMPANY

Options in the Company (Unlisted and physically settled equity derivatives)

Name of Directors	Type of interests	Description of equity derivatives (note)	Number of underlying shares	Subscription price per share HK\$
Sun Pishu	Beneficial owner	Share option	20,000,000	0.0648
Zhang Lei	Beneficial owner	Share option	20,000,000	0.0648
Leung Chi Ho	Beneficial owner	Share option	20,000,000	0.0648
Wang Miao	Beneficial owner	Share option	20,000,000	0.0648
Wang Hung, Alex	Beneficial owner	Share option	20,000,000	0.0648
Xin Wei Hua	Beneficial owner	Share option	20,000,000	0.0648

Note: The share options were granted under the Pre-IPO Share Option Scheme as disclosed in the prospectus of the Company dated 20 April 2004. These options expire ten years from the date of grant.

(C) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF EQUITY DERIVATIVES OF THE COMPANY

As at 30 June 2008, none of the Directors had short positions in shares or underlying shares of equity derivatives of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the following persons or companies (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO, and were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances as general meeting of any other members of the Group were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Name of Shareholders	Type of interests	Number of securities	Approximate percentage of interests
Inspur Group Limited	Corporate (note)	1,352,130,000	44.61%
Inspur Electronics (HK) Limited	Beneficial owner	1,352,130,000	44.61%

Note: Inspur Group Limited is taken to be interested in 1,352,130,000 shares due to its 100% shareholdings in the issued share capital of Inspur Electronics (HK) Limited.

(B) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND EQUITY DERIVATIVES OF THE COMPANY

As at 30 June 2008, no persons had short positions in shares or underlying shares of equity derivatives of the Company.

(C) LONG POSITIONS IN SERIES A SENIOR REDEEMABLE CONVERTIBLE VOTING PREFERRED SHARES OF THE COMPANY

Name of shareholder	Capacity	Number of securities	Approximate percentage of interests
Microsoft Corporation	Beneficial owner	234,279,559	100%

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTEREST

During the six months ended 30 June 2008, none of the directors, chief executive, initial management shareholders nor substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix V of the prospectus of the Company dated 20 April 2004.

None of the options granted under the Pre-IPO Share Option Scheme have been exercised, cancelled or lapsed during the six months ended 30 June 2008. As at 30 June 2008, 120,000,000 share options were outstanding.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms" in Appendix V of the prospectus of the Company dated 20 April 2004.

None of the options granted under the Share Option Scheme have been exercised, cancelled or lapsed during the six months ended 30 June 2008. As at 30 June 2008, 278,150,000 share options were outstanding.

AUDIT COMMITTEE

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

The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct (the "Model Code") regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all directors and has been confirmed that all directors have complied with the Model Code during the period.

CORPORATE GOVERNANCE

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the period ended 30 June 2008, save as notice of at least 14 days, as required under Code A.1.3, was not adequately given for some regular board meetings which were scheduled on dates such that most directors were able to attend. Also, the chairman of the board, as required under Code E.1.2, was not able to attend the annual general meeting because of other conference committed.

The Company will improve its meeting scheduling and arrangement in order to ensure full compliance with Code A.1.3 and E.1.2 in future.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 11 August 2008

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