**INSPUR INTERNATIONAL LIMITED**
浪潮國際有限公司*
*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 596)

# FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

The board of Directors (the "Board") of Inspur International Limited (the "Company") is pleased to present the audited consolidated results (the "Audited Consolidated Results") of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 as follows:

**Consolidated Income Statement**
*For the Year ended 31 December 2008*

| | NOTES | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Revenue | 2 | **1,841,584** | 922,174 |
| Cost of sales | | **(1,327,402)** | (829,508) |
| Gross profit | | **514,182** | 92,666 |
| Other income and gains | 4 | **72,786** | 3,657 |
| Administrative and operating expenses | | **(111,161)** | (46,802) |
| Selling and distribution cost | | **(69,053)** | - |
| Finance costs | | **(15,368)** | (14,305) |
| Amortisation of other intangible assets | | **(23,976)** | (479) |
| Fair value change in convertible notes classified as liabilities at fair value through profit or loss | | **3,029** | - |
| Share of profits of associates | | **3,212** | 8,111 |
| Profit before taxation | | **373,651** | 42,848 |
| Taxation | 6 | **(40,138)** | (2,558) |
| Profit for the year | 5 | **333,513** | 40,290 |
| Attributable to: | | | |
| Equity holders of the parent | | **311,633** | 38,801 |
| Minority interests | | **21,880** | 1,489 |
| | | **333,513** | 40,290 |
| Dividend | 8 | **61,639** | 7,715 |
| Earnings per share | 7 | | |
| Basic | | **HK10.22 cents** | HK1.48 cents |
| Diluted | | **HK7.02 cents** | HK1.32 cents |

**Consolidated Balance Sheet**
*At 31 December 2008*

| | NOTES | 2008 | 2007 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | **58,327** | 3,777 |
| Goodwill | | **136,740** | 30,542 |
| Other intangible assets | | **107,091** | 12,288 |
| Available-for-sale investment | | **565** | - |
| Interests in associates | | **-** | 71,148 |
| | | **302,723** | 117,755 |
| Current assets | | | |
| Inventories | | **63,162** | 56,341 |
| Trade receivables | 9 | **125,814** | 59,408 |
| Prepayments, deposits and other receivables | | **36,783** | 13,689 |
| Amounts due from customers for contract work | | **67,183** | 6,136 |
| Amounts due from fellow subsidiaries | | **80,099** | 37,625 |
| Amount due from ultimate holding company | | **136,501** | 285,171 |
| Taxation recoverable | | **112** | 293 |
| Bank balances and cash | 11 | **606,929** | 167,236 |
| | | **1,116,583** | 625,899 |
| Current liabilities | | | |
| Trade and bills payables | 10 | **94,054** | 122,342 |
| Other payables and accrued expenses | | **114,251** | 81,273 |
| Amounts due to customers for contract work | | **16,279** | 2,101 |
| Amounts due to fellow subsidiaries | | **22,445** | 65,304 |
| Amount due to ultimate holding company | | **439** | 3,646 |
| Bank borrowings | | **67,401** | - |
| Taxation payable | | **33,033** | 480 |
| | | **347,902** | 275,146 |
| Net current assets | | **768,681** | 350,753 |
| Total assets less current liabilities | | **1,071,404** | 468,508 |
| Non-current liabilities | | | |
| Deferred income - government grant | | **3,505** | - |
| Redeemable convertible preferred shares | | **184,642** | 181,840 |
| Convertible notes | | **55,421** | - |
| Deferred tax liabilities | | **27,818** | 3,072 |
| | | **271,386** | 184,912 |
| | | **800,018** | 283,596 |
| Capital and reserves | | | |
| Share capital | | **6,164** | 5,861 |
| Reserves | | **780,984** | 268,793 |
| Equity attributable to equity holders of the parent | | **787,148** | 274,654 |
| Minority interests | | **12,870** | 8,942 |
| Total equity | | **800,018** | 283,596 |

## 1. BASIS FOR PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

PRINCIPAL ACCOUNTING POLICIES

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of financial assets |
| HK(IFRIC) - INT 11 | HKFRS 2 - Group and treasury share transactions |
| HK(IFRIC) - INT 12 | Service concession arrangements |
| HK(IFRIC) - INT 14 | HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction |

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

## 2. REVENUE

Revenue represents the fair value of the consideration 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:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of IT components | **436,349** | 490,041 |
| Sales of IT products | **171,418** | 252,744 |
| Revenue from software development contracts | | |
| -Sales of IT peripherals and software | **808,001** | 165,611 |
| -Software development | **342,185** | 3,778 |
| Revenue from software outsourcing contracts | **83,631** | - |
| | **1,841,584** | 922,174 |

## 3. SEGMENT INFORMATION

### (a) Business segments

*Consolidated income statement for the year ended 31 December 2008*

| | Trading of IT components HK$'000 | Manufacturing and sales of IT products HK$'000 | Information technology services: Software solution HK$'000 | Information technology services: Software outsourcing HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Revenue | 436,349 | 171,418 | 1,150,186 | 83,631 | 1,841,584 |
| Segment results | 32,404 | 10,010 | 332,482 | 13,491 | 388,387 |
| Unallocated income | | | | | 5,383 |
| Unallocated corporate expenses | | | | | (10,992) |
| Fair value change in convertible notes classified as liabilities at fair value through profit or loss | | | | | 3,029 |
| Share of profits of associates | - | - | 3,212 | - | 3,212 |
| Interest expenses | | | | | (15,368) |
| Profit before taxation | | | | | 373,651 |
| Taxation | | | | | (40,138) |
| Profit for the year | | | | | 333,513 |

*Consolidated balance sheet at 31 December 2008*

| | Trading of IT components HK$'000 | Manufacturing and sales of IT products HK$'000 | Information technology services: Software solution HK$'000 | Information technology services: Software outsourcing HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Segment assets | 66,507 | 175,233 | 390,040 | 176,400 | 808,180 |
| Unallocated corporate assets | | | | | 611,126 |
| Consolidated total assets | | | | | 1,419,306 |
| LIABILITIES | | | | | |
| Segment liabilities | 27,622 | 22,248 | 185,385 | 7,982 | 243,237 |
| Unallocated corporate liabilities | | | | | 376,051 |
| Consolidated total liabilities | | | | | 619,288 |

*Other information for the year ended 31 December 2008*

| | Trading of IT components HK$'000 | Manufacturing and sales of IT products HK$'000 | Information technology services: Software solution HK$'000 | Information technology services: Software outsourcing HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| Additions to property, plant and equipment | - | 1,541 | 6,603 | 991 | 29 | 9,164 |
| Additions to goodwill arising on acquisition of subsidiaries and acquisition of additional interest in a subsidiary | - | - | 13,091 | 91,277 | - | 104,368 |
| Additions to other intangible assets on acquisition of subsidiaries | - | - | 53,933 | 62,610 | - | 116,543 |
| Depreciation of property, plant and equipment | - | 307 | 15,567 | 2,907 | 9 | 18,790 |
| Write-down of inventories | 859 | - | - | - | - | 859 |
| Amortisation of other intangible assets | - | - | 15,882 | 8,094 | - | 23,976 |
| Allowance for bad and doubtful debts | - | - | 255 | - | - | 255 |

*Consolidated income statement for the year ended 31 December 2007*

| | Trading of IT components HK$'000 | Manufacturing and sales of IT products HK$'000 | Information Technology service: Software solution HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue | 490,041 | 252,744 | 179,389 | 922,174 |
| Segment results | 10,536 | 17,965 | 33,992 | 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 |

*Consolidated balance sheet at 31 December 2007*

| | Trading of IT components HK$'000 | Manufacturing and sales of IT products HK$'000 | Information Technology service Software solution HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 54,824 | 270,535 | 179,458 | 504,817 |
| Interests in associates | - | - | 71,148 | 71,148 |
| Unallocated corporate assets | | | | 167,689 |
| Consolidated total assets | | | | 743,654 |
| LIABILITIES | | | | |
| Segment liabilities | 40,409 | 76,081 | 122,587 | 239,077 |
| Unallocated corporate liabilities | | | | 220,981 |
| Consolidated total liabilities | | | | 460,058 |

**(b) Geographical segments**

The Group's operations are currently carried out in the PRC (including Hong Kong), except for some services rendered by the provision of outsourcing software development services division are located in other regions.

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

| | Revenue by geographical market | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Hong Kong | **436,349** | 490,041 |
| The PRC (excluding Hong Kong) | **1,353,841** | 432,133 |
| Others | **51,394** | - |
| | **1,841,584** | 922,174 |

| | Carrying amount of segment assets | | Additions to property, plant and equipment, other intangible assets and goodwill | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **66,507** | 54,824 | **29** | 1 |
| The PRC (excluding Hong Kong) | **736,998** | 449,993 | **230,045** | 46,159 |
| Others | **4,675** | - | **1** | - |
| | **808,180** | 504,817 | **230,075** | 46,160 |

## 4. OTHER INCOME AND GAINS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Interest income | **2,650** | 2,358 |
| Net foreign exchange gain | **2,733** | 10 |
| Value added tax refund | **38,988** | - |
| Government subsidies and grants | **23,681** | - |
| Dividend income from an unlisted entity established in the PRC | **1,027** | - |
| Others | **3,707** | 1,289 |
| | **72,786** | 3,657 |

## 5. PROFIT ROR THE YEAR

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Allowance for bad and doubtful debts | **255** | 7,132 |
| Research and development costs | **31,144** | - |
| Write-down of inventories | **895** | 1,258 |
| Auditor's remuneration | **2,098** | 1,500 |
| Cost of inventories recognised as expenses | **1,157,908** | 826,068 |
| Depreciation for property, plant and equipment | **18,790** | 934 |
| Directors' remuneration | | |
| Fee | **240** | 227 |
| Other emoluments | **1,991** | 1,866 |
| Other staff costs | | |
| Salaries and other benefits | **133,863** | 13,239 |
| Retirement benefit scheme contributions | **9,139** | 1,025 |
| Share-based Payment | **818** | 10,937 |
| | **146,051** | 27,294 |
| Interest expense on redeemable convertible preferred shares wholly repayable within five years | **14,502** | 14,287 |
| Interest expense on bank borrowings wholly repayable within five years | **866** | 18 |
| | **15,368** | 14,305 |
| Net loss on disposal of property, plant and equipment | **167** | 21 |
| Operating lease rentals in respect of office premises and staff quarters | **11,924** | 1,219 |

## 6. TAXATION

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| Hong Kong Profits Tax | **4,785** | 2,477 |
| PRC Enterprise Income Tax | **40,214** | 268 |
| Under (over)provision in prior years: | | |
| Hong Kong Profits Tax | **(25)** | (67) |
| PRC Enterprise Income Tax | **113** | - |
| Deferred taxation | **(4,949)** | (120) |
| | **40,138** | 2,558 |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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 changed the tax rate to 25% from 1 January 2008 onwards.

The statutory tax rate for PRC Enterprise Income Tax of 25% (2007: 33%) is applied to the Group's PRC subsidiaries except for Inspur Communication Information System Limited ("Inspur Communication"), Shandong Inspur Business System Company Limited ("Inspur Business System") and Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft"). Inspur Communication, Inspur Business System and Inspur Genersoft are recognized as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15%. Furthermore, Inspur Genersoft can enjoy additional 5% reduction in tax rate starting from the fiscal year ended 31 December 2005 because it is recognized as "State recognized software enterprise" (國家規則局內的重點軟件企業) in 2005.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, Inspur (Shandong) Electronic Information Company Limited ("Inspur Shandong Electronic"), Shandong Inspur E-Government Software Limited ("Inspur E-Government") 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 Inspur Shandong Electronic, Inspur E-Government and Inspur Communication are the fiscal year ended 31 December, 2006, 31 December, 2007 and 31 December, 2004 respectively.

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, Inspur Worldwide (Shandong) Services Limited ("Worldwide Shandong"), Inspur Worldwide (Qingdao) Services Limited ("Worldwide Qingdao") and Inspur Guoyou (Shanghai) Services Incorporation ("Worldwide Shanghai"), which are recognized 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. The first profit-making year for Worldwide Shandong, Worldwide Qingdao and Worldwide Shanghai are the fiscal year ended 31 December 2007, 31 December 2007 and 31 December 2008 respectively.

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), Inspur Shijie (Beijing) Services Incorporation ("Shijie Beijing") is exempted from PRC income tax for three years since its establishment in 2005, followed by a 50% reduction for the next three years.

The implementation of New Law has no impact on the tax relief granted to the PRC subsidiaries.

## 7. 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:

| | **2008** | 2007 |
|---|---|---|
| | **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) | **311,633** | 38,801 |
| Fair value change in convertible notes classified as liabilities at fair value through profit or loss | **(3,029)** | - |
| Interest on redeemable convertible preferred shares | **14,502** | 14,287 |
| Earnings for the purposes of diluted earnings per share | **323,106** | 53,088 |

| | **'000** | '000 |
|---|---|---|
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **3,050,357** | 2,628,034 |
| Effect of dilutive potential ordinary shares: | | |
| - share options | **361,251** | 208,934 |
| - redeemable convertible preferred shares | **1,171,398** | 1,171,398 |
| - convertible notes | **21,329** | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **4,604,335** | 4,008,366 |

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

## 8. DIVIDEND

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Dividends recognised as distribution during the year: Nil (for 2007: HK1.5 cents) per share | **-** | 7,715 |

The final dividend of HK$0.02 (2007: nil) per share with aggregate amount of HK$61,639,000 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 9. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 180 days (2007: 30 to 120 days) to its customers. The aged analysis of trade receivables is stated as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **72,073** | 22,809 |
| 31 to 60 days | **10,450** | 15,713 |
| 61 to 90 days | **12,384** | 5,704 |
| 91 to 120 days | **1,612** | 911 |
| 121 to 180 days | **6,052** | 9,377 |
| Over 180 days | **23,243** | 4,894 |
| | **125,814** | 59,408 |

## 10. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the balance sheet date:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables | | |
| 0 - 30 days | **70,237** | 95,914 |
| 31 - 60 days | **7,838** | 17,656 |
| 61 - 90 days | **2,462** | 2,028 |
| Over 90 days | **13,517** | 6,744 |
| | **94,054** | 122,342 |

## 11. 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. At 31 December 2008, the bank balances and cash of approximately HK$558,544,000 (2007: HK$113,168,000) were denominated in RMB which is not freely convertible into other currencies.

# BUSINESS REVIEW AND PROSPECT

## Financial review

The domestic and international economy experienced tremendous change in 2008. With the support from the shareholders and the concerted efforts of the management and the staff, the Group's overall operating results recorded a significant growth. The Group also maintains a healthy financial position, realizing a perfect balance between business growth and risk management.

1. Strong growth in turnover

   During the year, the Group recorded a revenue of approximately HK$1,841,584,000 (2007: HK$922,174,000), increased by approximately one fold as compared with last year. Integrated IT services business recorded a turnover of approximately HK$1,234,000,000, representing 67% of the overall turnover and an increase of approximately 6 folds as compared with the corresponding period of last year.

2. Remarkable improvement in gross profit margin

   Gross profit was approximately HK$514,182,000 (2007: HK$92,666,000). The Group's gross profit margin saw a remarkable improvement with consolidated gross profit margin of 27.92% (2007: 10.05%) which was mainly due to its successful business transformation, strengthened marketing efforts, enhanced product portfolio and expansion into high valued business sector.

3. Significant increase in profit contribution

   Net profit attributable to shareholders for 2008 was approximately HK$311,633,000 (2007: HK$38,801,000), increased over 7 times as compared with the corresponding period of last year.

4. Healthy liquidity and financial position

   As at 31 December 2008, shareholders' funds of the Group amounted to approximately HK$787,148,000 (2007: HK$274,654,000). Current assets amounted to approximately HK$1,116,583,000 (2007: HK$625,899,000) of which approximately HK$606,929,000 (2007: HK$167,236,000) was cash and bank balances. Current liabilities amounted to approximately HK$347,902,000 (2007: HK$275,146,000). The Group's current assets were approximately 3.21 times (2007: 2.27 times) over its current liabilities. Gearing ratio of the Group, calculated as total interest-bearing borrowings divided by shareholders' equity, was 0.31 (2007: 0.64).

   The final dividend of HK$0.02 (2007: nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting

**Capital structure**

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

On 22 January 2008, the Company completed the issue of 100,000,000 ordinary shares at HK$1.25 per share, and received net proceeds of HK$121,000,000. On 3 July 2008, pursuant to an acquisition agreement, as a part of consideration for acquiring Langchao Worldwide Services Limited（浪潮世科有限責任公司）, the Company issued to Accord Star Limited（和星有限責任公司） 51,471,029 subdivided ordinary shares at HK$1.36272 per share and 2008 and 2009 Convertible Notes of aggregate principal amount of HK$58,450,000, which are convertible to 42,892,524 ordinary shares at a conversion price of HK$1.36272 per Share.

**Financial resources**

Although the Group has maintained a liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2008, the Group's total available banking facilities amounted to RMB220, 000,000 (2007: USD3,500,000).

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

**Foreign exchange exposure**

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

**Charges on assets**

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

**Contingent liabilities**

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

**Business review and prospects**

2008 was a year of strategic development of the Group. The Group focused on its "specialization" strategy to satisfy customers' need by acting promptly and precisely. Through a series of strategic acquisitions, the Group successfully transformed into an integrated IT services provider with solution and software outsourcing as its core businesses.

On 29 August 2008, the Group successfully migrated from GEM Board to the Main Board. The success of the Company is increasingly recognized by the community and investors.

Currently, the Group's businesses include the following three sections:

**I. Integrated IT services**

In 2008, the Group acquired premiere software outsourcing business and system solution business through a series of strategic acquisitions. The converge of businesses and operations generated synergies and both gross profit and net margin improved significantly. The Group has established its leading position in the IT service sector. The Group's integrated IT services contributed RMB1.23 billion to the Group's sale revenue.

**a) Enterprises IT services - ERP**

As an experienced management software provider, the Company is awarded the fastest growth enterprise in management software sector of China for the sixth consecutive years and has established its leading market position. Through full-scale technical collaboration with our strategic shareholder Microsoft, the Company successfully launched upgraded ERP-GS5.0 products which are advanced ERPs in PRC and leads the trend for informationisation of China. The Company's products have been applied and acclaimed by customers of various fields, such as corporations directly under the SASAC and companies in broad industries such as pharmaceuticals, petroleum chemicals, manufacturing and construction etc. The Company entered into agreements of software development and services with a number of major enterprises directly under the SASAC, such as Sinopec, Sinograin, CRECCL, FAW,. CCGRP and CSCEC in 2008 and secured a certain volume of sale. The Company will take effective measures to expand business to small-to-medium enterprises in coming years, aiming to further increase its market share in its niche market.

**b). IT services for tax management**

During the reporting period, the Group acquired the entire interest in Shandong Inspur Business System Company Limited* (山東浪潮商用系統有限公司) and the full control of the IT services for tax management. The Company provides tax-collection cashier machines, tax management software and integrated tax-control solutions for taxation authorities and commercial customers. The Company's self-developed products such as taxation information management and taxation management supporting systems have been launched and applied in 10 provinces, including Beijing, Zhejiang, Henan, Shandong and Jiangsu. The sale of tax-collection cashier machines has ranked first for consecutive six years and successfully penetrated into 8 provinces and cities, including Beijing, Guangdong, Shanghai and Liaoning, and outperformed its rivals. The Company successfully developed its proprietary automatic ratepaying machines (ARM) with approved self-developed patents in 2008 and commenced trial application in Shandong and some other places. It is expected that commercial launch will commence in the second half this year. We expect that IT services for tax management will make long-term contributions to the Group's future development.

**c). Telecom IT services**

Being one of major IT service providers of telecom operators, such as China Mobile, China Unicom and China Telecom, the Group's outstanding business - OSS (Telecom Operation Support System) has presence in the market of China Mobile in 14 provinces, the market of China Unicom in 5 provinces and the market of China Telecom in a number of provinces. The Group has an overall market coverage of 25%. Furthermore, the Company made major breakthroughs in overseas internet and telecom management markets by entering into agreements with the telecom companies of Pakistan, United Arab Emirates, etc.

The rollout of 3G network by the PRC's government has brought not only technology innovation and service upgrades, but also the change of the landscape of the industry and market. The Group will share a lot more opportunities.

**d). Financial IT services**

During the reporting period, China Construction Bank Corporation, Agricultural Bank of China, China Merchants Bank, Bank of China and Bank of Communications as the long term customers of the Group's IT services for financial sectors, continued to support our business. Financial management software, including banking management and analysis software, wealth management software, developed during the year was all certified and applied in the state level. The company improved its customer service system by setting up local supporting teams across China. The local teams are supported by the centralised back office. IT services for financial sector is a traditional business of the Company and will enjoy a sustainable and stable growth in the future.

**e). Governmental IT service - E-government**

By leveraging our technology and market advantages of our strategic partner, Microsoft, we launched a ECGAP (浪潮政務審批平台), which is currently applied by about 40 out of 340 prefecture-level cities in China. The Group intends to extend to 100 prefecture-level cities in the next 3 years. In 2008, the Group launched a series of software products including integrated monitoring system, urban emergence system, efficiency supervision system and public service system. These new products have enriched our product offering and met government departments' demands of their differentiated back office management. Our governmental products were recognized as 2008 Self-innovative New Products by Science & Technology Department of Shandong. In 2009, the Group also intends to explore to the markets of Golden Quality Supervision, Golden Agriculture and environmental protection as a new profit source of our governmental IT business.

**f). Software outsourcing business**

During the reporting period, the Group acquired Inspur Worldwide Services Limited and started to engage in the provision of software outsourcing services. Our software outsourcing business comprises of testing, BPO, software development consultation, embedded systems, server hosting, IT outsourcing business, ranging from low to high end comprehensive technological services. Due to the contribution of our shareholders on technology and marketing expertise, we had been awarded "Global Outsourcing 100" by Fortune Magazine for consecutive 3 years. Our global ranking had advanced from 60 to 38 in 2008. In 2008, in order to build up closer relationship with strategic customers and better understand their needs, we established local R&D Offices in the US, Japan and Hong Kong. This enables us to upgrade our capability and quality of service to high-end substantial clients comprehensively, actively expand our domestic market, continue to consolidate our competitiveness in enterprise application system and embedded software and develop our business in discrete manufacturing and communications.

Looking forward, we intend to consolidate our peers in the industry by joint venture, alliance and acquisition. The Company will attract talent professionals and provide training to staff. The Company will provide outsourcing services such as ODC and BOT to enhance its flexibility and overall capability. According to our analysis of the future trend present development of the market, we believe that the further growth of IT market will depend on the application of IT systems by companies in China. The Group will seek to maintain the growth of its outsourcing business by improving its competitiveness, vertical and horizontal integration, acquisition and restructuring.

**II. Manufacturing and sales of IT products**

During the reporting period, the Group introduced its IT products to Latin American market as scheduled. Amid to the fluctuation of oil prices and unfavorable global economic environment, the Group realized an annual revenue of approximately HK$171,000,000, representing a decline of 32% as compared with last year. Through overseas sales of IT products, the Company seeks to explore the overseas market for the its IT services. Overseas IT business will generate growth momentum with new customers and sales channels.

**III. IT components trading**

During the reporting period, IT components trading remained stable. Following the shift in focus of the Group's business, the contributing proportion of computer components distribution business in our principle business decreased. The Group recorded a revenue of approximately HK$436,349,000 for the year, accounting for 23.7% of total revenue of the Group, representing a decrease of 10.96% as compared with last year.

Last year, the Group successfully completed its business transformation and made significant achievements in building up customer base, market share and R&D. During the year, our main businesses brought us strong earning contribution and results Revenue and net profit significantly increased by one fold.

**Outlook**

Looking forward to 2009, the Group will continue to focus on our major businesses. The Group will capitalise suitable opportunities and refine our management system, strengthen cost control, as well as actively expand our domestic and international markets. Regarding IT service business, we will seek M&A opportunities and strategic cooperation partners to further expand, improve our value chain, maintain our leading position in IT service sector and improve profitability, which accordingly create larger value for our shareholders and society.

***Material acquisition, disposals and significant investment***

During the year, the Group had the following acquisitions:

<u>Acquisition – 60% in equity interest in Shandong Inspur Business System Company Limited</u>

Pursuant to an acquisition agreement dated 19 February 2008, the Group has acquired 60% equity interests in Shandong Inspur Business System Company LTD, a company principally engaged in the development, production and sale of computer software and computer peripherals particularly in respect of computerized cashier machines and point-of-sale terminals, and the provision of relevant information technology solution services in the PRC, at a consideration of RMB36,000,000. The Group's shareholding in Inspur Business was increased from 40% to 100% upon completion of the acquisition.

<u>Acquisition-100% equity interest in Langchao Worldwide Services Limited</u>
Pursuant to an acquisition agreement dated 5 May 2008, The Group has agreed to acquired 100% equity interest in Langchao Worldwide Services Limited, a company principally engaged in the software of outsourcing in Hong Kong, the PRC, Japan, USA and other overseas markets, at an aggregated consideration HK$194,835,000 settled in cash payment HK$66,243,900, allotment of 51,471,029 shares at issue price HK$1.36272 per share and HK$58,450,500 by issue of Convertible Notes, subject to agreed adjustment.

<u>Acquisition – 21.26% and further additional 48.69% equity interest in Inspur Group Shandong Genersoft Incorporation</u>

Pursuant to an acquisition agreement dated 18 December 2007 and 23 October 2008, the Group has agreed to acquire an 21.26% and further additional 48.69% equity interests in Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft"), a company principally engaged in the development, distribution of enterprise resources planning products, and offering all-round services for enterprise informationization, at a consideration of RMB35,079,000, for 21.26% equity acquisition and RMB87,382,000 for 48.69% equity acquisition, subject to valuation adjustment. Upon completion of the above equity acquisitions, the Group's shareholding in Inspur Genersoft was increased from 30.05% to 100%.

Save as disclosed above, the Group did not have any material acquisitions, disposals or change in its investments during the year ended 31 December 2008.

## EMPLOYEES

As at 31 December 2008, the total number of employees of the Group was approximately 3072. The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Group also invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrading their skills and knowledge.

## INCREASE OF AUTHERISED SHARE CAPITAL

The Directors intended to propose to recommend the shareholders to increase the authorised share capital of the Company from HK$13,000,000 to HK$23,000,000 by the creation of additional 5,000,000,000 ordinary shares of par value of HK$0.002 each.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares during the year. The Company has not redeemed any of the Shares during the year.

## CODE ON COPRPORATE GOVERNANCE PRACTICES

The Group has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board and Appendix 15 of Listing Rules for GEM throughout the period ended 31 December 2008,save as notice of at least 14 days, as required under Code A 1.3, was not adequately given for some regular board meeting which were scheduled on date 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.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") set out in Rules 5.48 to 5.67 of GEM listing Rule and Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31 December 2008.

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2008, including the accounting principles and practices adopted by the Group, and is of the opinion that the preparation of such results comply with applicable accounting standards and requirements, and that adequate disclosures have been made.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Thursday, 5 May 2009 to Monday, 11 May 2009 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Monday， 4 May 2009.

By Order of the Board
**Inspur International Limited**
**Sun Pishu**
*Chairman*

Hong Kong, 23 March 2009

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

* *For identification purposes only*