INSPUR INTERNATIONAL LIMITED

浪 潮 國 際 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

HALF-YEAR RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2009

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 six months ended 30 June 2009 together with comparative unaudited figures for the corresponding period in 2008.These interim results have not been reviewed by the auditors of the company，but have been reviewed by the audit committee of the company.

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Six months ended 30 June **2009** ***HK$'000*** ***(unaudited)***	 2008 *HK$'000* *(unaudited)*
Revenue	2	**839,759**	748,916
Cost of sales		**(612,418)**	(549,306)
Gross profit		**227,341**	199,610
Other income		**74,512**	32,967
Administrative and Selling expenses		**(102,340)**	(57,309)
Other operating expenses		**(10,988)**	(1,813)
Interest expenses		**(7,367)**	(7,251)
Fair value change in convertible notes classified as liabilities at fair value through profit or loss		**(4,270)**	—
Share of profit less loss of associates		**824**	2,429
Profit before taxation	4	**177,712**	168,633
Taxation	5	**(16,441)**	(18,541)
Net profit for the period		**161,271**	150,092
Attributable to:			
Equity holders of the Company		**163,354**	130,567
Minority interests		**(2,083)**	19,525
		161,271	150,092
Earnings per share	6		
Basic		**5.12 cents**	4.33 cents
Diluted		**3.71 cents**	3.02 cents

OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June **2009** ***HK$'000*** ***(unaudited)***	 2008 *HK$'000* *(unaudited)*
Attributable to Equity holders of the Company	**163,354**	130,567
Other Comprehensive Income :		
Exchange Difference arising on translation of foreign exchange	**1,217**	29,864
Total Comprehensive Income for the period attributable to Equity holders of the Company	**164,571**	160,431

DENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	**30.6.2009** *HK$'000* *(unaudited)*	31.12.2008 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**72,258**	58,327
Goodwill		**140,063**	136,740
Other intangible assets		**96,184**	107,091
Interests in associates		**566**	565
		309,071	302,723
Current assets			
Inventories		**110,512**	63,162
Trade receivables	8	**158,572**	125,814
Prepayments, deposits and other receivables		**128,639**	36,783
Amounts due from customers for contract work		**82,664**	67,183
Amount due from related companies	8	**184,653**	80,099
Amount due from a holding company	8	**36,573**	136,501
Taxation recoverable		**-**	112
Bank balances and cash		**966,866**	606,929
		1,668,479	1,116,583
Current liabilities			
Trade payables	9	**192,419**	94,054
Other payables and accrued expenses		**89,520**	114,251
Amounts due to customers for contract work		**16,340**	16,279
Amount due to related companies	9	**29,948**	22,445
Amount due to a holding company	9	**869**	439
Bank borrowings		**-**	67,401
Taxation payable		**34,822**	33,033
		363,918	347,902
Net current assets		**1,304,561**	768,681
Total assets less current liabilities		**1,613,632**	1,071,404
Non-current liabilities			
Deferred income		**4,467**	3,505
Redeemable convertible preferred shares	10	**186,181**	184,642
Convertible notes		**59,692**	55,421
Deferred tax liabilities		**25,093**	27,818
		275,433	271,386
		1,338,199	800,018

CONDENSED CONSOLIDATED BALANCE SHEET (CON'T)

	Notes	**30.6.2009**	31.12.2008
		HK$'000	*HK$'000*
		(unaudited)	*(audited)*
Capital and reserves			
Share capital	11	**7,288**	6,164
Reserves		**1,330,574**	780,984
		1,337,862	787,148
Minority interests		**337**	12,870
Total equity		**1,338,199**	800,018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital *HK$'000*	Share Premium *HK$'000*	Special Reserve *HK$'000*	Preferred shares equity reserve *HK$'000*	Share option reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits (loss) *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
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**
At 1 January 2009	6,164	295,536	92	17,438	11,755	59,943	396,220	787,148	12,870	800,018
Exchange differences arising from translation of overseas operation	–	–	–	–	–	1,217	–	1,217	–	1,217
Profit for the period	–	–	–	–	–	–	163,354	163,354	(2,083)	161,271
Total recognise profit (loss) for the period	–	–	–	–	–	1,217	163,354	164,571	(2,083)	162,488
Exercise option	504	26,793	–	–	–	–	–	27,297	–	27,297
Placing of new shares	620	420,265	–	–	–	–	–	420,885	–	420,885
Dividend paid	–	–	–	–	–	–	(62,039)	(62,039)	–	(62,039)
Minority interest in a subsidiary Acquired	–	–	–	–	–	–	–	–	(10,450)	(10,450)
At 30 June 2009	**7,288**	**742,594**	**92**	**17,438**	**11,755**	**61,160**	**497,535**	**1,337,862**	**337**	**1,338,199**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH GENERATED FROM OPERATING ACTIVITIES	**93,609**	128,887
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	**(46,938)**	982
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**312,393**	118,291
NET INCREASE IN CASH AND CASH EQUIVALENTS	**359,064**	248,160
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**606,929**	167,236
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**873**	17,147
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**966,866**	432,543

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 Listing Rules.

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

A numbers of new or revised Standards and Interpretation are effective for the financial year beginning on 1 January 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008.

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

Operating Segments

HKFRS 8 Operating Segments was effective for annual periods beginning on or after 1 January 2009.

The Group has adopted HKFRS 8 operating Segments with effect from 1 January 2009. Following the adoption of HKFRS 8, the identification of the Group’s reportable segments has no change and no impact on the reported results or financial position of the Group.

3. SEGMENT INFORMATION (Con't)

Business segment

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

Income statement for the six months ended 30 June 2009

	Trading of IT components *HK$'000*	Manufacturing and sales of IT products *HK$'000*	Sales of IT services *HK$'000*	Total *HK$'000*
Revenue	**179,013**	**138,839**	**521,908**	**839,759**
Segment results	**12,440**	**9,274**	**168,646**	**190,360**
Unallocated income				**1**
Unallocated corporate expense				**(1,836)**
Fair value change in convertible notes classified as liabilities at fair value through profit or loss				**(4,270)**
Share of results of associates	–	–	**824**	**824**
Interest expenses				**(7,367)**
Profit before taxation				**177,712**
Taxation				**(16,441)**
Profit for the period				**161,271**

Income statement for the six months ended 30 June 2008

	Trading of IT components *HK$'000*	Manufacturing and sales of IT products *HK$'000*	Sales of IT services *HK$'000*	Total *HK$'000*
Revenue	184,108	139,687	425,121	748,916
Segment results	15,269	10,798	150,614	176,681
Unallocated income				14
Unallocated corporate expense				(3,240)
Share of results of associates	-	-	2,429	2,429
Interest expenses				(7,251)
Profit before taxation				168,633
Taxation				(18,541)
Profit for the period				150,092

3. SEGMENT INFORMATION (Con't)

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 2009, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	30 June	
	2009	2009
	HK$'000	*HK$'000*
Hong Kong	**179,013**	184,108
The PRC	**660,746**	564,808
Consolidated	**839,759**	748,916

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**542,387**	517,799
Depreciation	**10,347**	6,571
Amortisation of other intangible assets	**10,988**	1,813

5. TAXATION

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**2,053**	2,519
PRC Enterprise Income Tax	**17,115**	16,240
Deferred taxation	**(2,727)**	(218)
	16,441	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:

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'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)	**163,354**	130,567
Interest on redeemable convertible preferred shares	**7,367**	7,251
Fair value change in convertible notes classified as liabilities at fair value through profit or loss	**4,270**	-
Earnings for the purpose of diluted earnings/ (loss) per share	**174,991**	137,818
Number of shares (in thousand)		
Weighted average number of ordinary shares for the purpose of basic earnings/ (loss) per share	**3,192,441**	3,018,412
Effect of dilutive potential ordinary shares		
–share options	**308,851**	369,780
–redeemable convertible preferred shares	**1,171,398**	1,171,398
–convertible notes	**42,893**	-
Weighted average number or ordinary shares for the purpose of diluted earnings/ (loss) per share	**4,715,583**	4,559,590

7. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: 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:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Trade receivables		
0-30 days	**85,261**	72,073
31-60 days	**18,155**	10,450
61-90 days	**1,789**	12,384
91-120 days	**8,535**	1,612
Over 120 days	**44,832**	29,295
	158,572	125,814

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Amounts due from related companies		
0-30 days	**169,248**	74,796
31-60 days	**11,358**	-
61-90 days	**257**	1,188
91-210 days	**3,790**	4,115
	184,653	80,099

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Amounts due from a holding company		
0-30 days	**3,492**	10,330
31-60 days	**171**	13,348
61-90 days	**59**	79,520
91-210 days	**32,851**	33,303
	36,573	136,501

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:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Trade payables		
0-30 days	**148,340**	70,237
31-60 days	**4,252**	7,838
61-90 days	**17,592**	2,462
Over 90 days	**22,235**	13,517
	192,419	94,054

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Amounts due to related companies		
0-30 days	**20,182**	14,559
31-60 days	**17**	-
61-90 days	**2,911**	7,886
Over 90 days	**6,838**	-
	29,948	22,445

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Amounts due to a holding company		
0-30 days	**133**	439
31-60 days	**18**	-
61-90 days	**159**	-
Over 90 days	**559**	-
	869	439

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:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Carrying amount at the beginning of the period/ year	**184,642**	181,840
Interest charges	**7,367**	14,502
Coupon interest paid	**(5,828)**	(8,759)
Coupon interest payable included in other payables and accrued expenses	**-**	(2,941)
	186,181	184,642

11. SHARE CAPITAL

	Number of shares	
	'000	*HK$'000*
Ordinary shares		
Authorised:		
At 1 January 2009	10,000,000	20,000
Issued:		
At 1 January 2009	3,081,971	6,164
Placing of new shares (Notes: a)	310,000	620
Exercise of share options	252,150	504
At 30 June 2009	3,644,121	7,288

Notes:

(a) On 27 May 2009, the Company completed a placing of 310,000,000 ordinary shares at HK$1.40 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:

		Six months ended	
		30.June.2009	**30.June.2008**
	Note	***HK$'000***	***HK$'000***
Sales of computer components	(i),(b)	**59,053**	61,672
Sales of computer products	(ii),(a)	**138,847**	139,687
Purchase of goods	(iii),(b)	**121,295**	84,970
Commission paid	(iv),(b)	**26**	32
Sales of IT services	(v),(c)	**8,216**	19,242
Payment of management fees	(vi),(a)	**2,634**	1,625
IT services fee	(vii)	**24,262**	-

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 Microsoft Corporation 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

Due to successful transformation in 2008 and further focus on integration and our business advantage, the Group is positioned to be a leading integrated IT services provider, principally engaged in solution provision with services covering taxation, finance, ERP, telecommunication, e-government and software outsourcing sectors. During the reporting period, revenue from IT Services was about 521,908,000, representing for approximately 62.15% of the Group's revenue, 89% of segment operation profit of our Group's business segment s and approximately 22% growth of same segment performance as compared with corresponding period of last year. Above information further defined the Group's core business and future market direction. The Group's interim results the following trends:

(1) Stable growth of revenue

Riding on the leading position of the Group in IT services in the PRC, the Group recorded a turnover of HK$839,759,000 (2008: HK$748,916,000), increased by 12%, during the period. This was mainly attributable to the increase in revenue from IT services, especially in the ERP and telecommunication system and network.

(2) Sharp increase in operating results

Sharp increase in revenue and operating profits were noted as a result of the success in transformation and integration of the Group's business. Gross profit was HK$227,341,000 (2008: HK$199,610,000) with gross margin of 27.07% (2008: 26.65%). Profit attributable to shareholders was HK$163,354,000 (2008: HK$130,567,000). Earnings per share and diluted earnings per share were HK$5.12 cents (2008: 4.33 cents) and HK$3.71 cents (2008: HK$3.02 cents) respectively.

Increase in gross profit margin and profit attributable to shareholders was mainly due to the change in sale mix in the current period. IT services yield higher gross profit and operation profit margin than our traditional IT sale business.

(3) Strong cash flow and sound liquidity

As at 30 June 2009, shareholders' funds amounted to approximately HK$1,337,862,000 (31 December 2008: HK$787,148,000). Current assets were approximately HK$1,668,479,000, including cash and bank balances of HK$966,866,000 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$363,918,000, mainly comprised of trade payable, other payables and accrued expenses, amount due to fellow subsidiaries and taxation payable. As at 30 June 2009, the Group's current assets were 4.58 times (31 December 2008: 3.21 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2009. Gearing ratio of the Group, calculated as total interest-bearing borrowings divided by shareholders' equity, was 0.14 (31 December 2008: 0.31).

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 27 May 2009, the Company completed a placing of 310,000,000 new ordinary shares at HK$1.40 per share to certain institutional investors and received net proceeds of approximately HK$420,266,000.

Material acquisitions

Pursuant to an acquisition agreement dated 27 April 2009 and completed during the period, the Group has acquired an additional 46.67% equity interests in Shandong Inspur E-Government Software Limited ("Inspur E-Government") at the consideration of RMB 11,000,000, a company principally engaged in the development and providing e-government IT service and solution.

Pursuant to an acquisition agreement dated 1 June 2009, the Group has acquired the 100% equity interests in Jinan Inspur Communication Limited ("Jinan Communication") at the consideration of RMB 130,000,000. Jinan Communication is an investment holding company and hold 30% interest in Qingdao LG Inspur Digtial Communication Limited ("Qingdao Lejin"). Qingdao Lejin is principally engaged in research and development, manufacturing and sale of wireless GSM mobile phones and value added software for mobile phones. Completion of the acquisition took place subsequently on July 2009.

Employee information

At 30 June 2009, the Group had 2,611 (30 June 2008: 1,619) employees. Total of employee remuneration, including that of the Directors and mandatory provident funds contributions, amounted to approximately HK$66,979,000 (2008: HK$22,374,000) 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 2009, none of the Group's assets was pledged (31 December 2008: 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 2009, the Group had no material contingent liabilities (31 December 2008: Nil).

BUSINESS REVIEW

The Group further consolidated its business and operation modes as an integrated IT services provider with provision of solutions as its core business through a series of acquisition, transformation and integration. With numerous domestic and overseas customers and a nation-wide sales network, the Company became the leading domestic integrated IT services enterprise principally engaged in solution provision with competitive edges in ERP, taxation, telecom, finance, E-government, software outsourcing, etc. In respect of customer relations management, the Group considers customers as our strategic assets by placing great emphasis on customer management and services. While exploiting existing customer resources, the Group proactively established new customer network. Apart from reinforcing research and development efforts, the Group also achieved outstanding results in the expansion of new markets, products and industries.

(1) IT services business

The IT services business of the Group covers taxation, finance, corporate, telecom and government sectors. Principally engaged in solution provision, its integrated IT services range from IT consultancy services, hardware, equipment to application of software, assembling of systems, operation maintenance and outsourcing.

ERP

In respect of our centralised group management solution, the Group's full-scale technical collaboration with Microsoft Corporation facilitated the release of GS5.0.1, an upgraded version of GS5.0, during the year upon the successful launch of the upgraded PS10 and GS5.0 products. As one of the most advanced ERP products in the PRC at present, GS5.0.1 is developed purely based on the GSP business platform and advanced SOA structure to facilitate the implementation of a centralised management model. It also leads the trend for informationisation of China. Incorporated with the most complex management concepts and most sophisticated and established technologies, GS5.0.1 strengthens the competitive edges of Inspur's ERP-GS series over major rivals in large-scale and concentrated application with better performance, shorter response time and larger production scale. Upon the completion and rollout of GS5.0, the Company established research guidelines and management standards based on the GSP business platform. It also fortified the research and development of vertical project management to enhance substantially the possibility of successful completion. Based on the GSP business platform, the Group maintained a management platform for research and development with synergy and high efficiency to bolster the entire life cycle management of products.

In respect of the sub-industry solution of Inspur's ERP, Inspur's ERP-PS10 accelerates the realisation of dynamic integration of finance, business and production. This product enhances the consistency, synchronisation and completeness of logistics, information flow and capital flow. It also ensures the comprehensive data flow between financial budget, control and financial analysis while improving the transparency and standardisation of business flow and streamlining production and management. PS10 is available in multi-language versions and is characterised by various innovative technologies. Inspur has applied for the national patent for PS10. The multi-language versions of PS10 facilitate our entry into the international market and exemplify the development of multi-language versions for other products.

In the first half of 2009, considering customers as our strategic assets, the Company set up the ERP-IT Services Team, which is responsible for the operation of the Company's IT services and the provision of overall informationisation service solution, including IT planning and system maintenance for our customers. The Company continued to consolidate its leading position in the high-end market by entering into agreements of software supply and service with a number of major enterprises directly under the SASAC, such as Sinopec, Sinograin, CCGRP, China Railway Group, CRCC, China Aerospace Science and Technology, Air China, COMAC, CNADC and Jiangnan Shipyard, to ensure stable sales volume. In the near future, the Company will adopt vigorous measures to explore the small and medium-sized enterprises so as to increase our market shares.

Telecom IT services

For the IT services business in the telecom industry, IT technology structure is becoming more vital with the integration of business and system.

Currently, the three major telecom operators in the PRC are establishing a large-scale 3G network. The application of 3G technology highlights the importance of the application and provision of mobile internet and data businesses. The compatible platform of the 3G technology has become essential for business success of telecom operators. The outsourcing practice of the telecom operators evolved into 3G business and data business, which create more market opportunities for the operation and maintenance of Telecom Operation Supporting System (“OSS”) and other related IT services based on 3G network.

Being one of major service providers of telecom operators, such as China Mobile, China Unicom and China Telecom, Inspur Communication leveraged on its accumulated industry experiences and market expansion capabilities to provide customers with integrated solutions focusing on equipment, business and operation and maintenance. In particular, Inspur Communication’s professional and specialised team of technology experts offered localised technology supporting services for the three major operators in the PRC.

As at the date of this report, the Group’s OSS has presence in the market of China Mobile in 15 provinces, the market of China Unicom in five provinces and the market of China Telecom in a number of provinces. Apart from securing existing OSS customers and business, the Group also stepped up efforts in the research and development of telecom management and other IT services value-added businesses in response to the needs of customers and the development of telecom market. Besides, the Group also expanded overseas markets through cooperation with equipment providers and telecom operators. It successfully promoted its system in overseas markets through localised application of OSS as evidenced by the winning of tenders and entering into contracts with telecom companies in over ten foreign countries, such as Nigeria, Saudi Arabia and Libya.

In light of the upcoming 3G era and the integration of telecom market in the PRC, telecom operators became more particular about comprehensive business operations. Keen competitions arising from market integration led to the transformation of operators towards innovative and service-oriented operation. Such development created new market expansion opportunities and advantages for our telecom IT services business.

As for its telecom IT services in the future, the Group will seize each opportunity to further consolidate its existing businesses in the developed provinces and increase the business scale in the region in order to extend its geographical coverage and expand its market share.

IT services for tax management

In 2008, upon completion of the acquisition of the entire interest in Shandong Inspur Business System Company Limited*（山東浪潮商用系統有限公司）, the Group launched the IT services business for tax management. This business principally includes the provision of tax-collection cashier machines, tax management software and integrated tax-control solutions for taxation authorities and commercial customers. The tax-collection cashier machine market in the PRC is of huge potential. At present, a total of 11 provincial and municipal taxation authorities have completed the tender of tax-collection cashier machines and the Group was chosen by nine of these provincial and municipal taxation authorities to enter into the final round of selection. It is expected three more provinces will call for tenders in the second half of the year and tenders in other provinces and municipalities will be basically completed in the next three years. The sale of our tax-collection cashier machines has ranked first for consecutive six years and has outperformed its peers with the market share of over 25%. To cater for the transformation of taxation administration from management-oriented to service-oriented operation, the Company improved its service platform for government and taxpayers. Our self-developed automatic ratepaying machines (“ARM”) commenced trial run in six provinces and municipalities, namely, Shandong, Jilin, Shanxi, Hebei, Chongqing and Shanghai. It is expected that related IT services of integrated solution for taxation management, such as software series for taxation, tax-collection cashier machines and automatic ratepaying machines will boost the long-term growth of the Group’s results.

Financial IT services

In view of the lackluster operation environment of the entire financial sector, particularly in the first quarter of the year, the Group timely adjusted its market strategy with a focus on the financial IT services. The strategy aimed at network expansion and management improvement, especially for the IT integration solution of bank network and management. The Group enhanced its communication with existing customers and improved its services while entering into agreements with new customers such as Ping An Insurance (Group), Chongqing Rural Commercial Bank and Zhejiang Rural Credit Cooperative Union to expand its customer base. It also catered for market demands by its research and development of new products, including the credit risk management system and the value and performance management system for the banks designated for agriculture, farmers and rural areas. In the future, the Group will strive to provide optimised and quality services for financial customers and explore and develop the relevant markets and products for the financial IT services sector.

Governmental IT service - E-government

With the gradual economic recovery and the implementation of market regulations, the Company's leading position in the E-government approval prefect was strengthened. During the reporting period, the Company enhanced and extended its customer base for continuous market share expansion while expanding the potential of its existing customers. It enriched the ECGAP product line by launching a series of products including the urban emergence system, the integrated monitoring system, the efficiency supervision system and the public service system to facilitate its provision of system application and comprehensive solutions for new and existing customers. In the first half of the year, the coverage of the Company's ECGAP product extended to eight new prefectural-level cities and several districts and counties, with the application expanding to the government departments of over 50 prefectural-level cities. It is expected that the market share will expand to 100 prefectural-level cities in the coming three years. The Company will further capitalise on customer demands, enhance service and continue to provide quality maintenance services and new solutions for its existing customers. It will also endeavour to explore to the markets of Golden Quality Supervision, Golden Agriculture and environmental protection as a new profit source of our governmental IT business.

Software outsourcing business

In respect of the software outsourcing business, the Group provided the IT outsourcing ("ITO") services (such as system application, development and maintenance services, software product and embedded software development, quality warranty and testing), the business process outsourcing ("BPO") services (such as data input and back office operation maintenance) and the product development outsourcing ("PDO") services (such as semi-finished parts and platform development) mainly for international customers. These services, ranging from low to high end, offered comprehensive technological support to customers.

Throughout the year, the adverse impacts of the financial tsunami on the Japanese, US and European markets worsened the operation environment of the Company's outsourcing business. In face of such adversities, the Company adopted proactive initiatives to explore its potential in overseas and domestic markets for new opportunities. In the Japanese market, the Company was highly regarded by new customers such as Mitsubishi and Panasonic. In the US and European markets, the Company maintained satisfactory relationships with it strategic shareholder Microsoft Corporation and established new corporation relationships with major customers such as British Telecommunications. In the domestic market, the Company cooperated with China Telecom and China Unicom for the outsourcing of date business.

The Group's software outsourcing business was awarded "The 2009 Global Outsourcing 100" by Fortune Magazine. Our global ranking advanced from 38 to 29 in 2009. Aside from maintaining its current markets and business coverage, the Group will expand its customer base and explore new markets for new profit sources in the second half of the year. The phenomenal development potential of the future software outsourcing business of China will be a new profit source of our IT services.

(2) International sales of IT products

The Group's international sales of IT products cover the provision of IT products and services to South American markets. During the reporting period, this business grew steadily. Turnover amounted to HK$138,839,000 (corresponding period of last year: HK$139,687,000), representing a decrease of 1% over last year. The amount accounted for 16.53% of total turnover of the Group and contributed about to 5% of our revenue. The Company intends to establish new sales network through expansion of overseas businesses with international sales of IT products. With this network, our new products and services will boost the growth of our overseas IT services business.

(3) IT components trading

During the reporting period, the contributing proportion of IT components trading business decreased. The Group recorded turnover of HK$179,013,000, accounting for 21.32% of total turnover of the Group and contributing to 7% of our revenue.

The Company will maintain the stable development of our IT components business through enlarging our customer base and sales channels.

Commercial Planning

Leveraging our competitive edges in our major industries, the Group will endeavour to reallocate our internal and external resources for the industry and enterprises, improve our value chain, expand our business scale and market share through joint venture, alliance and acquisition. By further consolidating our leading positions in the IT services sector, the Group will continue to maximise our profitability, investment return and shareholders' values.

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

As at 30 June 2009, 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
Dong Hailong	Beneficial owner	5,000	0.00%

(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 derivates *(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
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. Up to the Latest Practicable Date, none of the above share options had been exercised.

(C) Short positions in shares and underlying shares of equity derivatives of the Company

As at 30 June 2009, 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

So far as is known to the Directors, as at 30 June 2009, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(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)	1,354,390,000	37.17%
Inspur Electronics (HK) Limited	Beneficial owner	1,354,390,000	37.17%

Note: Inspur Group Limited is taken to be interested in 1,354,390,000 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 2009, 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%

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 24% of the issued share capital of the Company as enlarged by the full exercise of the conversation rights attaching to the Preferred Shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2009, 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 2009, 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.

The options granted under the Pre-IPO Share Option Scheme have been exercised 20,000,000 share during the six months ended 30 June 2009. As at the reported date, 80,000,000 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.

The options granted under the Share Option Scheme have been exercised 232,150,000 share during the six months ended 30 June 2009. As at the reported date, there is nil 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 report and has provided advice and comments thereon.

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 14 of the Listing Rules throughout the period ended 30 June 2009, 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model code for Securities Transactions by directors of Listing Issuers ("Model Code") contained in Appendix 10 to the 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 six months ended 30 June 2009.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 2 September 2009

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