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 2010

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 2010 together with comparative unaudited figures for the corresponding period in 2009.These interim results have not been reviewed by the auditors of the company，but have been reviewed by the audit committee of the company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

		Six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	2	**1,290,401**	839,759
Cost of sales		**(1,037,726)**	(612,418)
Gross profit		**252,675**	227,341
Other income	3	**27,292**	74,512
Administrative and Selling expenses		**(146,561)**	(102,340)
Amortisation of other intangible assets		**(9,939)**	(10,988)
Interest expenses		**(7,533)**	(7,367)
Fair value change in convertible notes classified as liabilities at fair value through profit or loss		**2,124**	(4,270)
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss		**(676)**	-
Share of profit less loss of associates		**15,823**	824
Profit before taxation	4	**133,205**	177,712
Taxation	5	**(13,291)**	(16,441)
Net profit for the period		**119,914**	161,271
Attributable to:			
Equity holders of the Company		**119,800**	163,354
Minority interests		**114**	(2,083)
		119,914	161,271
Earnings per share	6		
Basic		**3.18 cents**	5.12 cents
Diluted		**2.53 cents**	3.71 cents

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Net profit for the period	**119,914**	161,271
Other Comprehensive Income:		
Exchange Difference arising on translation of foreign operations	**12,064**	1,217
Total Comprehensive Income for the period	**131,978**	162,488
Total comprehensive income attributable to:		
Owners of the Company	**131,938**	164,571
Minority interests	**40**	(2,083)

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	Notes	**30.6.2010** ***HK$'000*** ***(unaudited)***	31.12.2009 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**80,194**	86,662
Goodwill		**74,959**	74,364
Other intangible assets		**58,288**	67,981
Available-for-sale Investment		**21,116**	567
Interests in associates		**125,602**	141,333
		360,159	370,907
Current assets			
Inventories		**180,573**	261,561
Trade receivables	8	**189,974**	188,604
Prepayments, deposits and other receivables		**67,125**	35,307
Amounts due from customers for contract work		**100,861**	60,847
Amount due from fellow subsidiaries	8	**282,448**	195,940
Amount due from ultimate holding company	8	**176,248**	42,538
Taxation recoverable		**-**	112
Bank balances and cash		**854,003**	918,347
		1,851,232	1,703,256
Current liabilities			
Trade and bills payables	9	**174,084**	214,121
Other payables, deposits received and accrued expenses		**103,520**	93,801
Amounts due to customers for contract work		**18,161**	15,962
Amount due to fellow subsidiaries	9	**53,069**	20,026
Amount due to ultimate holding company	9	**13,271**	3,662
Deferred Income- government grant		**1,280**	2,575
Taxation payable		**20,780**	31,757
Dividend payable		**37,701**	-
		421,866	381,904
Net current assets		**1,429,366**	1,321,352
Total assets less current liabilities		**1,789,525**	1,692,259
Non-current liabilities			
Deferred income-government grant		**13,605**	8,449
Redeemable convertible preferred shares	10	**188,915**	187,676
Convertible notes		**27,787**	29,911
Deferred tax liabilities		**23,166**	25,589
		253,473	251,625
		1,536,052	1,440,634

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED) (CON'T)

	Notes	**30.6.2010**	31.12.2009
		HK$'000	HK$'000
		(unaudited)	(audited)
Capital and reserves			
Share capital	11	**7,540**	7,540
Reserves		**1,527,278**	1,431,900
Equity attributable to owners of the Company		**1,534,818**	1,439,440
Minority interests		**1,234**	1,194
Total equity		**1,536,052**	1,440,634

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	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 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**
At 1 January 2010	7,540	763,257	92	17,438	–	62,431	588,682	1,439,440	1,194	1,440,634
Exchange differences arising from translation of overseas operation	–	–	–	–	–	12,138	–	12,138	(74)	12,064
Profit for the period	–	–	–	–	–	–	119,800	119,800	114	119,914
Total recognise profit (loss) for the period	–	–	–	–	–	12,138	119,800	131,938	40	131,978
Preferred shares	–	–	–	1,141	–	–	–	1,141	–	1,141
Dividend payable	–	–	–	–	–	–	(37,701)	(37,701)	–	(37,701)
At 30 June 2010	**7,540**	**763,257**	**92**	**18,579**	–	**74,569**	**670,781**	**1,534,818**	**1,234**	**1,536,052**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH GENERATED FROM OPERATING ACTIVITIES	**(79,549)**	93,609
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	**10,844**	(46,938)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(1,954)**	312,393
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(70,659)**	359,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**918,347**	606,929
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**6,315**	873
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**854,003**	966,866

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.

In the current interim period, the Group has applied for some revised standards and amendments and interpretations (“HK(IFRIC)-INT’) (hereinafter collectively referred to as “new HKFRSs’) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2010. The adoption of the new HKFRSs has no material effect on the condensed consolidated financial statement for the current or prior accounting period.

2. REVENUE AND SEGMENT INFORMATION

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

Business segment

The Group is currently organized into four operating divisions, namely trading of IT components, manufacturing and sales of IT products, software and embedded solution and software outsourcing. Segment information about these operating divisions is presented below:

Segment revenues and results for the six months ended 30 June 2010

			Information technology services		
	Trading of IT components	Manufacturing and sales of IT products	Software and embedded solution	software outsourcing	Total
	HK$’000	*HK$’000*	*HK$’000*	HK$’000	*HK$’000*
Revenue	**401,408**	**351,363**	**498,591**	**39,039**	**1,290,401**
Segment results	**31,410**	**14,705**	**77,705**	**1,864**	**125,684**
Unallocated income					**1**
Unallocated corporate expense					**(2,218)**
Fair value change in convertible notes classified as liabilities at fair value through profit or loss					**2,124**
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss					**(676)**
Share of results of associates	–	–	**15,823**	–	**15,823**
Interest expenses					**(7,533)**
Profit before taxation					**133,205**
Taxation					**(13,291)**
Profit for the period					**119,914**
Reportable segment Asset	**154,964**	**224,145**	**1,758,583**	**73,699**	**2,211,391**
Reportable segment Liabilities	**97,930**	**139,158**	**429,372**	**8,879**	**675,339**

2. REVENUE AND SEGMENT INFORMATION (CON'T)

Business segment (CON'T)

Segment revenues and results for the six months ended 30 June 2009

	Trading of IT components	Manufacturing and sales of IT products	Information technology services: Software and embedded solution	Information technology services: software outsourcing	Total
	HK$'000	*HK$'000*	*HK$'000*	HK$'000	*HK$'000*
Revenue	179,013	138,839	482,229	39,678	839,759
Segment results	12,440	9,274	165,956	2,690	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
Reportable segment Asset	78,576	157,546	1,670,588	70,840	1,977,550
Reportable segment Liabilities	52,030	113,055	468,642	5,624	639,351

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 2010, irrespective of the origin of the goods/services:

	Sales revenue by geographical market 30 June 2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Hong Kong	**401,408**	179,013
The PRC	**888,993**	660,746
Consolidated	**1,290,401**	839,759

3. Other income

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Interest income	**3,866**	2,870
VAT refund	**15,113**	14,463
Government subsidies and grants	**7,964**	56,939
Others	**349**	240
	27,292	74,512

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**976,829**	542,387
Depreciation	**14,586**	10,347
Amortisation of other intangible assets	**9,939**	10,988

5. TAXATION

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Current tax:		
Hong Kong	**5,183**	2,053
PRC Enterprise Income Tax	**10,531**	17,115
Deferred taxation	**(2,423)**	(2,727)
	13,291	16,441

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	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Earnings		
Earnings/ (loss) for the purpose of basic earnings/ (loss) per share (Profit/ (loss) for the period attributable to equity holders of the parent)	**119,800**	163,354
Interest on redeemable convertible preferred shares	**7,532**	7,367
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	**676**	-
Fair value change in convertible notes classified as liabilities at fair value through profit or loss	**(2,124)**	4,270
Earnings for the purpose of diluted earnings/ (loss) per share	**125,884**	174,991
Number of shares (in thousand)		
Weighted average number of ordinary shares for the purpose of basic earnings/ (loss) per share	**3,770,121**	3,192,441
Effect of dilutive potential ordinary shares		
–share options	**18,603**	308,851
–redeemable convertible preferred shares	**1,174,169**	1,171,398
–convertible notes	**21,446**	42,893
Weighted average number or ordinary shares for the purpose of diluted earnings/ (loss) per share	**4,984,339**	4,715,583

7. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: 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 fellow subsidiaries and ultimate holding company at the balance sheet date is as follows:

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Trade receivables		
0-30 days	**89,024**	127,263
31-60 days	**26,024**	24,051
61-90 days	**22,058**	3,105
91-120 days	**15,511**	8,192
Over 120 days	**37,357**	25,993
	189,974	188,604

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due from fellow subsidiaries		
0-30 days	**264,482**	39,031
31-60 days	**11,042**	5,498
61-90 days	**-**	14,294
91-210 days	**6,924**	137,117
	282,448	195, 940

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due from ultimate holding company		
0-30 days	**11,185**	42,538
31-60 days	**155,137**	-
61-90 days	**2,459**	-
91-210 days	**7,467**	-
	176,248	42,538

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 fellow subsidiaries and ultimate holding company for the purchase of goods and services at the balance sheet date:

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Trade and bills payables		
0-30 days	**125,214**	175,329
31-60 days	**20,206**	12,491
61-90 days	**1,333**	4,803
Over 90 days	**27,331**	21,498
	174,084	214,121

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due to fellow subsidiaries		
0-30 days	**42,041**	8,272
31-60 days	**351**	33
61-90 days	**3,173**	3,392
Over 90 days	**7,504**	8,329
	53,069	20,026

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due to ultimate holding company		
0-30 days	**1,716**	3,662
31-60 days	**82**	-
61-90 days	**10,022**	-
Over 90 days	**1,451**	-
	13,271	3,662

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.

On 24 September 2009, the Company entered into a supplemental deed with holder of Preferred shares (the "Supplemental Deed"). Pursuant to the Supplemental Deed, the Company and the holder of Preferred shares have mutually agreed that the interest of 6% for the period from 1 October 2009 to 30 September 2011 shall be paid on quarterly basis (i) as to one third thereof (i.e. representing 2% per annum) by cash; and (ii) as to two-thirds thereof (i.e. representing 4% per annum) by the allotment of further Preferred Shares ("Scrip Dividend") in such number to be calculated by dividing the amount of such Scrip Dividend with the amount of the Scrip Dividend issue price. The Scrip Dividend issue price is determined to be equal to 100% of the average closing price of ordinary shares as shown on the daily quotation sheet of the Stock Exchange for the 10 consecutive trading days immediately prior to such dividend payment date. Each Scrip Dividend is entitled to convert one ordinary share. Except for the number of ordinary share available for conversion, all other terms of Scrip Dividend are the same as Preferred Shares. Details of the terms of Scrip Dividend issued to holders of the Preferred Shares are set out in the Company's circular dated 15 October 2009. The Company issued 1,832,495, 1,866,903 and 2,717,486 scrip dividend at HK$1.068, HK$1.037 and HK$0.73 each on 31 December 2009, 31 March and 30 June 2010 respectively.

By the end of June 2010,total number of 240,696,443 preferred shares been issued accordingly which is entitled to convert into 1,177,814,679 underlying Shares represented approximately 23.80% of the issued share capital of the Company as enlarged by the full exercise of the conversation rights attaching to the Preferred Shares.

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:

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Carrying amount at the beginning of the period/ year	**187,676**	184,642
Interest charges	**7,532**	14,734
Coupon interest paid	**(1,954)**	(8,751)
Coupon interest payable included in other payables and accrued expenses	**(3,874)**	(2,949)
Valuation	**(465)**	—
	188,915	187,676

11. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*
Ordinary shares of HK$0.002 each		
Authorised:		
At 1 January 2010	10,000,000	20,000
Issued:		
At 1 January 2010	3,770,121	7,540
At 30 June 2010	3,770,121	7,540

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

12. RELATED PARTY TRANSACTIONS

On 12 January 2009, the Company entered into a new framework agreement ("New Framework Agreement") with Inspur Group Limited, substantial shareholder, which integrate the current continuing connected transactions with Inspur Group Limited and its subsidiaries (collectively referred to as "Inspur Group") under five categories of activities which are in line with the current business model of the Group. Apart from the amounts due from and to related parties as disclosed in the condensed consolidated balance sheet, certain of which also constitute connected transaction under Chapter 14A of Listing Rule of HKEX, the Group had entered into the following connected party transactions during the period:

		Six months ended	
		30.June.2010	30.June.2009
		HK$'000	*HK$'000*
	Note	***(unaudited)***	*(unaudited)*
Supply Transactions	(i)	**444,871**	206,116
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	**39,738**	2,789
(2) The related commission amount		**336**	26
Purchase Transactions	(iii)	**87,795**	51,644
Common Services Transactions	(iv),	**4,244**	2,634
Processing Transactions	(v)	**59,964**	69,651
Software Outsourcing Services	(vi)	**19,748**	24,262

Notes:

(i) The Inspur group will, with reference to the market price, pay a premium of no less than 1.5% above the purchase price paid by the Group.

(ii) The Group appoints the Inspur Group to act as selling agency in the sale of the products and services of the Group. In return, the Inspur Group will receive a commission of 1% of the total sale value of the products and services.

(iii) The Group will purchase the computer hardware and software products by the Group from the Inspur Group. The price per unit of the computer products and components purchased from Inspur Group will be agreed between parties with reference to the then prevailing markets prices of such computer hardware and software products at the relevant time.

(iv) The Inspur Group shall provide Common Services for use the Group based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for provision of similar services.

(v) Inspur Business System Company Limited ("Inspur Business") has appointed Inspur Cheeloo Company Limited ("Inspur Cheeloo") to provide services of procurement of raw materials of and assembling and manufacturing tax-collection cashier machines at processing fee calculated at 5% of the value of the raw materials (the "Cashier Machines Purchases") and the said rate is comparable to the rates in the market.

(vi) Software outsourcing services was charged to a related company Microsoft Corporation at the standard chargeable rate charged to third parties.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

After the business integration in 2009 and in face of the changes in the market and industry after the economic crisis, the Board of Directors and the management of the Company adjusted strategies to focus in the development of businesses with competitive edges, aiming to expand its shares in specific markets and the whole industry. Leveraging on the advantageous position of our core businesses, the Company strengthened the development of its product chain. Investment in research and development were further increased, especially for the development of new and upgraded products for advantageous businesses, in order to maintain competitiveness of core products. The Company also enhanced its brand promotion and marketing activities by expanding the sales network and forming strategic alliance with business partners to achieve synergy effects. The Company was devoted to become a specialized provider of integrated IT services, including the comprehensive solution comprising the software and related services as well as embedded systems, IT consultancy, assembling of systems, operation and maintenance, outsourcing, and end products, for the internal control of enterprises, telecommunication, government, pharmaceutical, construction, taxation, finance, coal and manufacturing sectors. The Group's interim results show the following trends:

(1) Satisfactory growth of revenue

During the reporting period, the Group recorded a turnover of HK$1,290,401,000 (2009: HK$839,759,000), representing an increase of 53.66% as compared with the corresponding period of last year. IT services business recorded a turnover of HK$537,630,000 (2009: HK$521,907,000), representing an increase of over 3.01% as compared with the corresponding period of last year. Its segment results accounted for 63.31% of the overall results. The total revenue from the international IT sales and IT components trading segments amounted to HK$752,771,000 (2009: HK$317,852,000), representing an increase of 136.83%.

(2) Decrease in profit

During the reporting period, gross profit was HK$252,675,000 (2009: HK$227,341,000), representing an increase of 11.14%, with gross margin of 19.58% (2009: 27.07%). Net profit attributable to shareholders was HK$119,800,000 (2009: HK$163,354,000). Earnings per share and diluted earnings per share were HK$3.18 cents (2009: 5.12 cents) and HK$2.53 cents (2009: HK$3.71 cents) respectively.

Decrease in gross profit margin was mainly due to: 1. the revenue contribution from lower margin business such as international IT sales and IT components trading increased；and 2. the slight drop in gross profit margin of IT services due to keen market competition.

And Net margin significantly decreased by 26.66% to HKD$119,800,000 (2009: HK$163,354,000) as compared with the corresponding period of last year. The decrease was mainly attributable to: 1. the increase in overall sales and administrative expenses of 43.21% to HKD$146,561,000 (2009: 102,340,000) during the reporting period as compared with the corresponding period of last year, because the Company increased its investment in marketing activities and research and development to enhance the core competitive edges of its products in face of market competition and consolidation; and 2. the decrease of government subsidies and grants during the reporting period as compared with the corresponding period of last year;

(3) Strong cash flow and sound liquidity

As at 30 June 2010, shareholders' funds amounted to approximately HK$1,534,818,000 (31 December 2009: HK$1,439,440,000). Current assets were approximately HK$1,851,232,000, including cash and bank balances of HK$854,003,000, which were mainly bank deposits denominated in Renminbi, US dollars and Hong Kong dollars within three months of maturity when acquired.

Current liabilities were HK$421,866,000, mainly comprised trade payable, amount due to fellow subsidiaries, other payables and accrued expenses, and tax payable. The Group's current assets were 4.39 times (31 December 2009: 4.46 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2010.

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

Capital structure

On 24 September 2010, the Company entered into a supplementary deed ("Supplementary Deed") with the holder of Preferred Shares, pursuant to which the Company and the holder of Preferred Shares have agreed that during the period from 1 October 2009 to 30 September 2010,a dividend at an annual rate of 6% shall be paid to the holders of Preferred Shares on a quarterly basis, (i) as to one third (1/3) thereof (i.e. representing 2% per annum) by cash; and (ii) as to two-thirds (2/3) thereof (i.e. representing 4% per annum) by the allotment of additional Preferred Shares ("Scrip Dividend") in such number to be calculated by dividing the amount of Scrip Dividend by the issue price of scrip share. The issue price of scrip share shall be the average closing price of the Ordinary Shares as shown on the daily quotation sheet of the Stock Exchange for the 10 consecutive trading days immediately prior to such dividend payment date. Each scrip share is convertible into one Ordinary Share. Save for the number of Ordinary Shares to be converted, the scrip shares rank para passu with Preferred Shares in all respects. Further details regarding the terms of the issue of scrip shares to the holders of Preferred Shares was set out in the circular of the Company dated 15 October 2009.

During the reporting period, a total of 4,584,389 scrip dividends, each can be converted to one ordinary share, were issued to Microsoft pursuant to an agreement dated 24 September 2009,. The remaining cash dividend of preferred shares at 2% was paid by internal resources of the Company.

Material acquisitions

In April 2010, the Company , through Inspur Genersoft, a wholly-owned subsidiary of the Company, invested RMB17,970,000 in Beijing Shenzhou Aerospace Software Company Ltd("北京神舟航天軟件有限公司")("BJSASC"), representing equity interest of 5.6% of the registered capital of BJSASC.

Employee information

At 30 June 2010, the Group had 2, 858 (30 June 2009: 2,611) employees. Total employee remuneration, including the Directors' fees and contributions to the Mandatory Provident Funds, amounted to approximately HK$73,661,000 (2009: HK$66,979,000) for the period under review.

The Group determined the remuneration of its employees according to their performance and experience. In addition to basic salaries, discretionary bonus and share options may be granted to eligible employees with reference to the Group's results and the employee's individual performance. In addition, the Group has provided its employees with Mandatory Provident Funds and medical insurance coverage.

Charges on assets

As at 30 June 2010, none of the Group's assets was pledged (31 December 2009: nil).

Foreign exchange exposure

The Group's sales and purchase were mainly denominated in US dollars and Renminbi. 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 2010, the Group had no material contingent liabilities (31 December 2009: nil).

BUSINESS REVIEW

The PRC economy continued to improve in the first half of 2010. However, competition in certain sectors was significantly intensified. With the support of our shareholders as well as the cooperation and diligence of all of our staff, the Company achieved a satisfactory operating result by focusing in the development of our business with competitive edges (专业化领先战略). Based on the plans formulated at the beginning of the year, the Company has capitalised its edges in IT services business, and further optimized and adjusted its existing structure according to customer and market demands for enhancing its specialized management and coordination. More efforts were put on the establishment of systems for market and product development for the expansion of its domestic and overseas markets and strengthened the scale and market share of its core business. Through its commitment to research and development, its competitiveness was enhanced along with continuous improvement in its technological and service capability and efficiency. The Group expanded its core business and maintained its leading position or edges in the IT services industry with a focus on integrated solutions including software and related services as well as embedded systems.

1. IT services business

The IT services business of the Group covers various sectors, including corporate governance and control, telecommunication, government administration, pharmaceuticals, infrastructure, taxation and finance etc. Mainly engaged in software and related services as well as embedded systems, the Company obtained integrated IT services range from applications, IT consultancy, assembling of systems, operation maintenance, outsourcing and intelligent terminal products.

(1) Software and Embedded solution

(a) Software and related services

During the reporting period, the Company strategically developed its businesses with competitive edges (专业化领先战略) and further enhance its services by providing dedicated, caring and professional customer services. Besides further strengthening the development of general products, the Company focused on particular markets and allocated its resources in a well-targeted manner, with an aim to equip our staff with professional knowledge, rapidly expand and refine our products and resolutions and further enhance its capability of commercialization of our research and development efforts. As a result, competitive edges and sound expertise were formed which make the Company distinguished from its competitors. Through cultivating experts who are familiar with customers' businesses, the Company was able to provide better services to the customers by understanding their needs, which sharpens the Company's competitive edges.

The Company emphasis the importance of technology development and plays an active role in the formulation of national standards. Financial Information Technology – Accounting Software Protocol GB/T 24589.4-2010 (财经信息技术 会计核算软件数据接口), a national standard which the Company led in its formulation, has passed the experts' appraisal. In addition, based on the in-depth research of the latest IT technologies such as SOA and cloud computing as well as domestic and international advanced management concepts, the Company studied the advanced structures and management concepts of similar overseas products through its international collaborations. In addition, by understanding the sophisticated requirements of the industry and our customers, the Company formulated detailed product roadmaps and implementation plans. The Company has optimised its management of the research and development, and launched a consultancy and assessment program of CMMI5. The Company will apply statistical approaches in its research and development to evaluate the effectiveness of its efforts for improvement. The management team will also be restructured to strengthen the management of R&D.

During the reporting period, the Company put more efforts in the research and development of GSP platform to build a cooperative and effective management platform of research and development. The Company launched a series of products which are based on this platform, and form a foundation for its entry into target markets. In the first half of the year, the Company upgraded its financial management software such as credit risk management system as well as value and performance management system; put more efforts in the research and development of tax decision-making supporting and analysing system and anti-counterfeiting receipt lottery system. The Company also enriched the ECGAP product line by upgrading government public resources management solutions and electronic monitoring products to form integrated solutions of anti-corruption. The Company integrated OSS related resources, established a comprehensive business centre with all functions including pre-sales, marketing, R&D, construction and services. The Company has expanded the new OSS business based on ONEOSS 2.0 system of China Mobile and its competitive edges in integrated products. It also launched new general GS5.2 products, therefore its products and resolutions cover more than 30 industries including military, equipment manufacture, construction, coal, pharmaceutical, fast moving consumer goods, pensions, government, public utilities etc.

In the first half of the year, by adjusting its organizational structure, the Company focused on target markets and allocated its resources related to research and development, sales, implementation and services in a well-targeted manner, worked closely with our customers to provide better services. As a result, competitive edges and sound expertise were formed which make the Company distinguished from its competitors. The Company's taxation software products are applied in Henan and Guangdong. Its financial value and performance products gained a number of new customers including China Agricultural Bank Heilongjiang Branch, CITIC Shenzhen, CITIC Tianjin and CITIC Shanghai. The coverage of E-governance products extended to Anhui and Hainan provinces, and successfully provided IT solution services covering governments of Shenzhen, Guangzhou, Hefei, Beijing etc. As at the end of the reporting period, the Company has remained to be the largest player in terms of market shares, with its market covering 16 provinces with 68 prefectural-level customers. As OSS telecommunication products have entered new local and overseas market practice including Chongqing and Tanzania, the Company's OSS products have presence in the market of China Mobile in 17 provinces, the market of China Unicom in 5 provinces and the market of China Telecom in a number of provinces. The products are applied in 16 overseas countries.

The Company undertook government projects including Comprehensive Support Platform of SaaS (Universal Management) (SaaS服务（通用管理）综合支撑平台) from Ministry of Industry and Information Technology and targeted its market at specialised businesses. Focusing on the target customers, the Company successfully established strategic partnership with a number of major customers, including CHANA, South Ordnance Industry Corporation, HPGC and CASC, and delivered projects to CCGRP and China Railway Group. It also worked together with Midea and CMB to provide delivery of electronic notes nationwide. The Company also realised another breakthrough in the transportation and maintenance project of Sinograin and continued to consolidate its leading position in a variety of high-end sectors, such as group management, business intelligence and supply chain.

In the face of the 3G era and immense opportunities brought by the integration of cloud computing and 3-network, keeping pace with the concurrent applications trend in SAAS, cloud computing, 3G network, logistic network's application for 3G and RFID, the Group will strive to explore value-added businesses, including data business and mobile payment, develop the corporate software system and integrated application, and accelerate the improvement of CMMI5 in order to achieve scale expansion and rapid development. It will grasp new and high-end customers while maintaining relationships with the existing customers. Investment in research and development will also increase to maintain competitiveness of products. The Company will strengthen project management and develop multi-project implementation system, which further diversify the product lines, enhance market sales capacities, expand market coverage and market share, and organize major promotion activities to further increase market influence of its brand name.

(b) Embedded systems and related services

Business intelligence terminal market in China has huge potential, friendly used in banking industry and government taxation and is experiencing rapid changes and development. The Company has identified and responded to the development trend of this market and realized the importance of improving its core competitiveness.

In the tax-collection machine market, since the introduction of the concept of "tax management based on invoices" and the relevant documents by the State Administrative of Taxation in 2005, a total of 14 provinces and municipalities have accomplished tender of tax-collection cashier machines. The Company has maintained its leading position in the industry as it was selected as the qualified supplier for 12 provinces and municipalities, including Guangdong, Beijing, Shanghai, Liaoning, Jiangsu, Heilongjiang, Guangxi and Hubei. However, the pace of business expansion in this market was slow and no market expansion has yet commenced in some provinces. In some provinces where the tenders were completed, no large-scaled implementation has been carried out, or the time span between the completion of tender and the launch of promotion activities was more than two years. In particular, the recent new concepts of "tax management based on information technology"（信息管稅） and "E-filing of tax"（網絡報稅） has an adverse impact on the traditional "tax management based on invoices" method. The market outlook was affected significantly and players took a wait-and-see attitude. The Company will respond to the above adverse impacts by closely monitoring the latest development of tax control measures, conducting further research on market competition, integrating business resources and offering value-added services to both the tax collectors and payers.

In respect of the automatic rate-paying machine ("ARM") market, in 2009, the Company developed ARM（自動辦稅終端）in line with Tax Bureau's transformation from managing-oriented to servicing-oriented, which was the first integrated and automatic tax reporting platform. In the first half of the year, upon a further improvement of its functions, ARM has approximately 30 functions of automatic tax reporting and filing and was put on trial in 16 provinces and regions including Shandong, Jilin, Shanxi, Hebei, Chongqing and Shanghai.

In respect of the automatic financial terminal market, the Company has engaged Agricultural Bank of China Inner Mongolia Branch, Construction Bank of China Zhejiang Branch, Agricultural Bank of China Chongqing Branch, China Life and Huishang Bank as our new customers in the first half of the year. As for high-end products of E-banking, the Company has engaged Agricultural Bank of China Henan Branch, Agricultural Bank of China Shandong Branch and Everbright Bank Shandong Branch as our new customers to maintain its leading position within this segment market.

As a result of the economic and social development, it is necessary for the service industry to improve quality, reduce costs, release workforce and raise competitiveness by using automatic equipment. Automatic equipment has great market potentials. Amid the fierce competition, the Company will strive to develop this market, increase the added value of our products, and further improve its ability of providing integrated solutions, providing better services for our customers and expanding the application of our products in related industry and market.

(2) 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 testing), the business process outsourcing ("BPO") services 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.

In the first half of 2010, the global outsourcing market saw a slow recovery with fierce competition. The Company has expanded its business scale and maintained profits by expanding its domestic and overseas markets and services, and optimising its business and personnel structure. The Company also enhanced its cooperation with strategic contractors such as Microsoft, NTT DATA, FITEC, KNT, Mitsubishi and China Mobile in terms of developing products, providing solutions, marketing and promotion in order to maintain its advantages in product quality assurance and testing, development of business applications, telecommunication supporting systems and terminal applications, and to maintain a sustainable and stable growth of its outsourcing business.

During the reporting period, the Company further increased its investments in BPO services to diversify the outsourcing business and enhance its anti-risk capability. In addition, based on the existing outsourcing projects with Microsoft, the Company has further cooperated with departments in charge of cloud computing and copyright of Microsoft to expand related outsourcing businesses. As at 2010, ISW was ranked among the top 5 in China software outsourcing services market by CCID Consulting for five consecutive years, and was selected in the Global Outsourcing 100 by IAOP and Fortune Magazine for four years (ranking 37 among the top 100 in 2010).

2. International sales of IT products

The Group's international sales of IT products cover the provision of IT related products such as PC and notebook to South America. During the reporting period, turnover of this business amounted approximately to HK$351,363,000 (corresponding period of last year: HK$138,839,000), representing an increase of around 153.07% over last year. The amount accounted for 27.23% of total turnover of the Group.

In view of its nature of low profits, long operating cycle and high maintenance expense, more resources will be invested for a long term, which is not in line with the core business of the Group as an integrated IT service provider. The Board decided to exit this operating business segment. However, the Group will strive to complete all related outstanding orders and commitments respectively. The outstanding balances will be settled and this business will terminate by the end of the year.

3. IT components trading

During the reporting period, components trading business recorded turnover of approximately HK$401,408,000, accounting for 31.11% of total turnover of the Group and contributing to 24.99% of segment results. The Company will maintain the stable development of IT components business through enlarging its customer base and sales channels.

Business planning

In the second half of the year, the Company will confront with various challenges and keep its advantage edges in IT services industry by implementing the strategy of "specialization", optimising and adjusting the existing organizational structure according to the customers' needs, increasing its investments, further expanding both domestic and overseas markets, enlarging business scales and market shares of its core businesses, enhancing its R&D ability to raise competitiveness of products, increasing its servicing ability and efficiency, enhancing its external cooperation, merger and acquisition, optimising its value chain and enhancing its ability to provide comprehensive solutions and services in the core IT services industry.

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

As at 30 June 2010, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the 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

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 2010, 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 2010, 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	35.92%
Inspur Electronics (HK) Limited	Beneficial owner	1,354,390,000	35.92%
Matthews International Capital Management, LLC	Fund Manager	418,820,000	11.10%
Public Mutual Berhad	Fund Manager	227,750,000	6.04%
The Hamon Investment Group Pte Limited	Fund Manager	197,680,000	5.24%
The Dreyfus Corporation	Fund Manager	195,405,000	5.18%

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 2010, 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	Equivalent to ordinary shares	Approximate percentage of interests
Microsoft Corporation	Beneficial owner	240,696,443	1,177,814,679	100%

Note: Holder of Preferred Share , 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 as 30 June 2010, the above 240,696,443 preferred shares convertible into 1,177,814,679 underlying Shares represented approximately 23.80% 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 2010, 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 2010, 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.

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("2004 share option scheme"). As at the reported date, there is 20,000,000 share options were outstanding under 2004 share option scheme.

During the reporting period, no option has been granted or agreed to grant under the share option scheme.

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 2010, 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 2010.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 30 August 2010

As at the date of this announcement, the Board comprised Mr. Sun Pishu, Mr. Wang Xingshan, Mr. Chen Dongfeng and Mr. Dong Hailong as executive Directors and Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis as independent non-executive Directors.