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INSPUR INTERNATIONAL LIMITED

浪潮國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The board of Directors (the "**Board**") of Inspur International Limited (the "**Company**") is pleased to present the audited consolidated results (the "**Audited Consolidated Results**") of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2010 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	2010 HK$'000	2009 HK$'000 (restated)
Continuing operations			
Revenue	2&3	2,337,110	2,010,034
Cost of sales		(1,874,695)	(1,525,698)
Gross profit		462,415	484,336
Other income and gains	4	68,213	132,870
Administrative and other operating expenses		(174,394)	(127,121)
Selling and distribution cost		(157,549)	(106,571)
Finance costs		(14,734)	(15,963)
Amortisation of other intangible assets		(19,380)	(21,980)
Fair value change in convertible note classified as liabilities at fair value through profit or loss		686	(3,715)
Impairment loss on goodwill and other intangible assets		-	(79,332)
Share of profit of an associate		13,715	14,502
Profit before taxation		178,972	277,026
Taxation	7	(19,998)	(33,467)
Profit for the year from continuing operations		158,974	243,559
Discontinued operations			
Profit for the year from discontinued operations	6	18,560	8,972
Profit for the year	5	177,534	252,531
Profit for the year attributable to:			
Owners of the Company			
- Profit for the year from continuing operations		159,412	245,529
- Profit for the year from discontinued operations		18,560	8,972
Profit for the year attributable to owners of the Company		177,972	254,501
Non-controlling interests			
- Loss for the year from continuing operations		(438)	(1,970)
		177,534	252,531
Earnings per share	8		
From continuing and discontinued operations			
- Basic		HK4.72 cents	HK7.37 cents
- Diluted		HK3.85 cents	HK5.63 cents
From continuing operations			
- Basic		HK4.23 cents	HK7.11 cents
- Diluted		HK3.48 cents	HK5.44 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	177,534	252,531
Other comprehensive income		
Exchange differences arising on translation	65,485	2,970
Total comprehensive income for the year	243,019	255,501
Total comprehensive income attributable to:		
Owners of the Company		
- from continuing operations	222,185	247,836
- from discontinued operations	20,852	9,153
	243,037	256,989
Non-controlling interests		
- from continuing operations	(18)	(1,488)
	243,019	255,501

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		101,124	86,662
Goodwill		77,174	74,364
Other intangible assets		54,969	67,981
Available-for-sale investments		21,740	567
Interest in an associate		127,019	141,333
		382,026	370,907
Current assets			
Inventories		170,361	261,561
Trade receivables	10	243,819	188,604
Prepayments, deposits and other receivables		70,023	35,307
Amounts due from customers for contract work		65,532	60,847
Amounts due from fellow subsidiaries		82,917	195,940
Amount due from immediate holding company		59,555	-
Amount due from ultimate holding company		1,402	42,538
Taxation recoverable		2,532	112
Bank balances and cash	12	1,343,682	918,347
		2,039,823	1,703,256
Current liabilities			
Trade and bills payables	11	282,723	214,121
Other payables, deposits received and accrued expenses		110,306	93,801
Amounts due to customers for contract work		39,389	15,962
Amounts due to fellow subsidiaries		20,027	20,026
Amount due to ultimate holding company		14,618	3,662
Amount due to non-controlling interests of a subsidiary		3,060	-
Deferred income - government grant		5,085	2,575
Redeemable convertible preferred shares		201,400	-
Taxation payable		22,274	31,757
		698,882	381,904
Net current assets		1,340,941	1,321,352
Total assets less current liabilities		1,722,967	1,692,259
Non-current liabilities			
Deferred income - government grant		11,475	8,449
Redeemable convertible preferred shares		-	187,676
Convertible notes		-	29,911
Deferred tax liabilities		24,852	25,589
		36,327	251,625
		1,686,640	1,440,634

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010 (CON'T)

	NOTE	2010	2009
		HK$'000	HK$'000
Capital and reserves			
Share capital		7,583	7,540
Reserves		1,676,116	1,431,900
Equity attributable to owners of the Company		1,683,699	1,439,440
Non-controlling interests		2,941	1,194
Total equity		1,686,640	1,440,634

NOTES

1. Basis for preparation

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

The presentation of continuing operations and discontinued operations in the current year has resulted in a re-presentation of the corresponding comparative amounts shown for the consolidated income statements and related notes.

APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners
HK - INT 5	Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Statement of cash flows

As part of the consequential amendment of HKAS27, HKAS 7 specifies that the cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as financing activities in the statement of cash flows. This change has been applied retrospectively. Its application has resulted in reclassification of the consideration for acquisition of additional interest in a subsidiary amounting to approximately HK$12,467,000 paid in 2009 from investing to financing activities in the consolidated statement of cash flows.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard will affect the classification and measurement of the Group's available-for-sale investments.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

2. Revenue

Revenue represents the fair value of the consideration received and receivable for goods sold and services rendered by the Group less discounts, returns and allowances. An analysis of the Group's revenue for the year from continuing operations is as follows:

	2010	2009
	HK$'000	HK$'000
Sales of information technology ("IT") components	918,277	526,588
Revenue from software development contracts		
- Sales of IT peripherals and software	900,579	994,774
- Software development	428,619	402,634
Revenue from software outsourcing contracts	89,635	86,038
	2,337,110	2,010,034

3. Segment Information

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2010

Continuing operations

		Information technology services		
	Trading of IT components	Software development and solution	Software outsourcing	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue				
External sales	918,277	1,329,198	89,635	2,337,110
Segment profit	59,248	111,616	7,373	178,237
Other income and gains				9,260
Share of profit of an associate				13,715
Central administration costs				(8,192)
Fair value change in convertible note classified as liabilities at fair value through profit or loss				686
Interest expenses				(14,734)
Profit before taxation				178,972

For the year ended 31 December 2009

Continuing operations

		Information technology services		
	Trading of IT components	Software development and solution	Software outsourcing	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue				
External sales	526,588	1,397,408	86,038	2,010,034
Segment profit (loss)	33,382	336,131	(87,368)	282,145
Other income and gains				6,264
Share of profit of an associate				14,502
Central administration costs				(6,207)
Fair value change in convertible note classified as liabilities at fair value through profit or loss				(3,715)
Interest expenses				(15,963)
Profit before taxation				277,026

Note: All of the segment revenue reported for both years was from external customers.

Segment Information (Con't)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

At 31 December 2010

	Continuing operations			Discontinued operations	
		Information technology services			
	Trading of IT components	Software development and solution	Software outsourcing	Manufacturing and sales of IT products	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Segment assets	146,136	720,721	48,215	11,536	926,608
Property, plant and equipment					21,508
Interest in an associate			`		127,019
Bank balances and cash					1,343,682
Other assets					3,032
Consolidated total assets					2,421,849
LIABILITIES					
Segment liabilities	46,221	412,799	4,116	2,605	465,741
Taxation payable					22,274
Redeemable convertible preferred shares					201,400
Deferred tax liabilities					24,852
Other liabilities					20,942
Consolidated total liabilities					735,209

Segment Information (Con’t)

Segment assets and liabilities (con’t)

At 31 December 2009

	Continuing operations			Discontinued operations	
		Information technology services			
	Trading of IT components	Software development and solution	Software outsourcing	Manufacturing and sales of IT products	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Segment assets	92,546	502,452	51,233	345,680	991,911
Property, plant and equipment					21,227
Interest in an associate			`		141,333
Bank balances and cash					918,347
Other assets					1,345
Consolidated total assets					2,074,163
LIABILITIES					
Segment liabilities	46,193	227,853	3,817	70,379	348,242
Taxation payable					31,757
Redeemable convertible preferred shares					187,676
Convertible notes					29,911
Deferred tax liabilities					25,589
Other liabilities					10,354
Consolidated total liabilities					633,529

Segment Information (Con't)

Other segment information

For the year ended 31 December 2010

Amounts included in the measure of segment profit or segment assets:

	Trading of IT components	Information technology services: Software development and solution	Information technology services: Software outsourcing	Continuing operations Total	Discontinued operations	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Additions to non-current assets (note)	814	45,538	2,500	48,852	-	-	48,852
Depreciation of property, plant and equipment	561	23,932	5,228	29,721	126	424	30,271
Write-down of inventories	8,118	-	-	8,118	-	-	8,118
Amortisation of other intangible assets	-	15,675	3,705	19,380	-	-	19,380
Allowance for bad and doubtful debts	-	2,572	-	2,572	-	-	2,572

Note:

Non-current assets included property, plant and equipment, goodwill and other intangible assets.

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets and not allocated to any operating segment.

	HK$'000
Interest in an associate	127,019
Share of profits of an associate	13,715
Interest expenses	14,734

Segment Information (Con't)

Other segment information (Con't)

For the year ended 31 December 2009

Amounts included in the measure of segment profit (loss) or segment assets:

	Trading of IT components	Information technology services: Software development and solution	Information technology services: Software outsourcing	Continuing operations Total	Discontinued operations	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Additions to non-current assets (note)	-	68,118	328	68,446	-	25,271	93,717
Depreciation of property, plant and equipment	-	22,091	5,668	27,759	132	2	27,893
Write-down of inventories	1,167	746	-	1,913	-	-	1,913
Amortisation of other intangible assets	-	16,240	5,740	21,980	-	-	21,980
Impairment loss on goodwill and other intangible assets	-	-	79,332	79,332	-	-	79,332
Impairment loss on amounts due from customers for contract work	-	5,684	-	5,684	-	-	5,684
Allowance for bad and doubtful debts	16	5,029	-	5,045	-	-	5,045

Note: Non-current assets included property, plant and equipment, goodwill and other intangible assets.

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit (loss) or segment assets and not allocated to any operating segment.

	HK$'000
Interest in an associate	141,333
Share of profit of an associate	14,502
Interest expenses	15,963

Segment Information (Con't)

Geographical information

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

The Group's revenue from external customers from continuing operation by geographic location of markets, or customer irrespective of the origin of the goods/services and information about the Group's non-current assets by geographic location of assets:

	Revenue from external customers		Non-current assets	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	918,277	526,588	21,479	21,227
The PRC (excluding Hong Kong), (country of domicile)	1,345,493	1,404,271	338,656	348,965
Others	73,340	79,175	151	148
	2,337,110	2,010,034	360,286	370,340

Note: Non-current assets excluded available-for-sale investments.

Information about major customer

For the year ended 31 December 2010 and 2009, there were no single customer contributing over 10% of the total revenue of the Group.

4. OTHER INCOME AND GAINS

	2010 HK$'000	2009 HK$'000
Continuing operations		
Interest income	8,142	5,115
Net foreign exchange gain	1,423	1,149
Value added tax refund (Note a)	46,204	43,465
Government subsidies and grants (Note b)	11,027	81,866
Dividend income from available-for-sale investments	902	824
Gain on disposal of property, plant and equipment	33	-
Others	482	451
	68,213	132,870

Notes:

(a) Inspur (Shandong) Electronic Information Company Limited ("Inspur Shandong Electronic"), Inspur Communication Information System Limited ("Inspur Communication"), Shandong Inspur Business System Company Limited ("Inspur Business System"), Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft") and Inspur E-Government Software Limited ("Inspur E-Government") are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, it is entitled to a refund of VAT paid for sales of self-developed software in the PRC.

(b) For the year ended 31 December 2010, the amount of approximately HK$7,565,000 (2009: HK$81,335,000) represent the subsidies received from the PRC Government for the purpose of encouraging the development of group entities engaged in new and high technology sector. The subsidies received are in substance a kind of immediate financial support to the group's entities with no future related costs and recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to the subsidies granted to the Group.

For the year ended 31 December 2010, the amounts of approximately HK$3,462,000 (2009: HK$531,000) represent the grants from the Government for funding of some feasibility studies which benefits the society as a whole. The grants received are recognised as income when the related feasibility studies has been completed and the approval of the relevant Government authority has been obtained.

5. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year has been arrived at after charging:		
Continuing operations		
Allowance for bad and doubtful debts	2,572	5,045
Impairment loss on amounts due from customers for contract work	-	5,684
Research and development costs	36,733	8,467
Auditor's remuneration	1,906	1,906
Cost of inventories recognised as expenses in cost of sale (including write-down of inventories of HK$8,118,000 (2009: HK$1,913,000))	1,640,525	1,300,642
Depreciation for property, plant and equipment	30,145	27,761
Directors' remuneration	4,154	1,991
Other staff costs		
Salaries and other benefits	208,527	158,242
Retirement benefits scheme contributions	24,993	19,612
Share based payments	7,826	-
	245,500	179,845
Interest expense on redeemable convertible preferred shares wholly repayable within five years	14,734	14,734
Interest expense on bank borrowings wholly repayable within five years	-	1,229
	14,734	15,963
Net loss on disposal of property, plant and equipment	-	174
Operating lease rentals in respect of office premises and staff quarters	16,428	12,550

6. DISCONTINUED OPERATIONS

Pursuant to the minutes of board of directors dated 3 June 2010, the directors resolved that the Group would discontinue the business of manufacturing and sales of IT products after all outstanding sales orders and commitment to Inspur Corporation and its subsidiaries were fulfilled. All the transactions were completed before 31 December 2010.

The results of manufacturing and sales of IT products for the year ended 31 December 2010, which have been included in the consolidated income statement, were as follows:

	2010 HK$'000	2009 HK$'000
Revenue	437,433	145,671
Cost of sales	(413,173)	(131,604)
Administrative and operating expenses	(2,918)	(2,498)
Profit before taxation	21,342	11,569
Taxation	(2,782)	(2,597)
Profit for the year	18,560	8,972

Profit for the year from discontinued operations includes the following:

	2010 HK$'000	2009 HK$'000
Cost of inventories recognised as expenses in cost of sale	413,173	131,604
Depreciation for property, plant and equipment	126	132
Other staff costs		
Salaries and other benefits	1,398	1,029
Retirement benefits scheme contribution	394	276
	1,792	1,305

During the year, the manufacturing and sales of IT product contributed HK$298,670,000 (2009: incurred HK$114,942,000) to the Group's net operating cash flows, contributed nil (2009: nil) in respect of investing activities and financing activities.

7. TAXATION

	2010 HK$'000	2009 HK$'000
Continuing operations		
Current tax:		
Hong Kong Profits Tax	9,102	4,922
PRC Enterprise Income Tax	12,039	33,000
Under(over)provision in prior years:		
Hong Kong Profits Tax	130	(52)
PRC Enterprise Income Tax	(285)	(2,128)
Deferred taxation	(988)	(2,275)
	19,998	33,467

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The statutory tax rate for PRC Enterprise Income Tax of 25% is applied to the Group's PRC subsidiaries except for Inspur Communication, Inspur Business System and Inspur Genersoft. Inspur Communication, Inspur Business System and Inspur Genersoft are recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15%. The entitlement of this tax benefit is subject to renewal by respective tax bureau in PRC every three years. The latest approval for all of the PRC subsidiaries enjoying this tax benefit were obtained in the fiscal years ended 31 December 2008. Furthermore, Inspur Genersoft can enjoy additional 5% reduction in tax rate starting from the fiscal year ended 31 December 2005 because it is recognised as "State recognised key software enterprise" (國家規則局內的重點軟件企業) since 2005. The entitlement of this tax benefit is subject to annual renewal by respective tax bureau in PRC.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, Inspur Shandong Electronic and Inspur E-Government are exempted from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year for Inspur Shandong Electronic and Inspur E-Government are the fiscal year ended 31 December 2006 and 31 December 2007 respectively.

Pursuant to the Notice of Ministry of Finance and the State Administrative of Taxation concerning certain preferential policies on enterprise income tax <<財稅[2000]25號 <財政部、國家稅務總局、海關總署>關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知>>第二條, Inspur Worldwide (Shandong) Services Limited ("Worldwide Shandong"), Inspur Worldwide (Qingdao) Services Limited ("Worldwide Qingdao") and Inspur Guoyou (Shanghai) Services Incorporation ("Worldwide Shanghai"), which are recognised as "Software Enterprise", are exempted from PRC Enterprise Income Tax for two years starting from their respective first profit-making years, followed by a 50% reduction for the next three years. The first profit-making year for Worldwide Shandong, Worldwide Qingdao and Worldwide Shanghai are the fiscal year ended 31 December 2007, 31 December 2007 and 31 December 2009 respectively.

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

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

	2010 HK$'000	2009 HK$'000
Profit before taxation from continuing operations	178,972	277,026
Tax at the prevailing profits tax rate of 25%	44,743	69,257
Tax effect of share of profits of associates	(3,429)	(3,626)
Tax effect of expenses not deductible for tax purpose	6,124	22,352
Tax effect of income not taxable for tax purpose	(15,650)	(24,478)
Tax effect of tax losses not recognised	665	540
Effect of tax relief granted to PRC subsidiaries	(11,403)	(33,337)
Effect of different tax rates of group entitles operating in jurisdictions other than PRC	(4,689)	(2,558)
Over provision in respect of previous years	(155)	(2,180)
Deferred tax on withholding tax arise from PRC subsidiaries	3,792	7,540
Others	-	(43)
Taxation for the year	19,998	33,467

At the end of the reporting period, the Group has unused tax losses of HK$9,362,000 (2009: HK$6,702,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses at the end of the reporting period, due to the unpredictability of future profit streams. All tax losses may be carried forward indefinitely.

8. EARNINGS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2010 HK$'000	2009 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	177,972	254,501
Interest on redeemable convertible preferred shares	14,734	14,734
Fair value change in convertible notes classified as liabilities at fair value through profit or loss	(686)	3,715
Earnings for the purpose of diluted earnings per share	192,020	272,950

	2010 '000	2009 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,771,120	3,455,124
Effect of dilutive potential ordinary shares:		
- share options	18,621	180,878
- redeemable convertible preferred shares	1,174,978	1,171,398
- convertible notes	20,447	42,893
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,985,166	4,850,293

EARNINGS PER SHARE（Con’t）

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2010 HK$'000	2009 HK$'000
Profit for the year attributable to owners of the Company	177,972	254,501
Less: Profit for the year from discontinued operations	(18,560)	(8,972)
Earnings for the purpose of basic earnings per share from continuing operations	159,412	245,529
Interest on redeemable convertible preferred shares	14,734	14,734
Fair value change in convertible notes classified as liabilities at fair value through profit or loss	(686)	3,715
Earnings for the purpose of diluted earnings per share from continuing operations	173,460	263,978

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operation is HK0.49 cent per share (2009: HK0.26 cent per share) and diluted earnings per share for the discontinued operation is HK0.37 cent per share (2009: HK0.19 cent per share), based on the profit for the year from the discontinued operations of HK$18,560,000 (2009: HK$8,972,000) and the denominators detailed above for both basic and diluted earnings per share.

9. DIVIDEND

	2010 HK$'000	2009 HK$'000
Dividends recognised as distribution during the year:		
2009 final dividend - HK$0.01 (2009: 2008 final dividend - HK$0.02) per share	37,701	62,039

The final dividend of HK$0.01 in respect of the year ended 31 December 2010 (2009: final dividend of HK$0.01 in respect of the year ended 31 December 2009) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 180 days (2009: 30 to 180 days) to its customers. The aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the invoice date at the end of the reporting period is stated as follows:

	2010	2009
	HK$'000	HK$'000
0 to 30 days	149,933	127,263
31 to 60 days	39,481	24,051
61 to 90 days	6,605	3,105
91 to 120 days	3,419	8,192
121 to 180 days	13,695	6,906
Over 180 days	30,686	19,087
	243,819	188,604

11. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables for the purchase of goods and services received presented based on the invoice date at the end of the reporting period:

	2010	2009
	HK$'000	HK$'000
Trade and bills payables		
0 - 30 days	200,489	175,329
31 - 60 days	33,954	12,491
61 - 90 days	23,720	4,803
Over 90 days	24,560	21,498
	282,723	214,121

12. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carried interest at market rates which range from 0.01% to 1.53% (2009: 0.01% to 3.51%) per annum. At 31 December 2010, the bank balances and cash of approximately HK$1,272,000,000 (2009: HK$867,258,000) were denominated in RMB which is not freely convertible into other currencies.

FINANCIAL REVIEW

During the year ended 31 December 2010, the Group recorded a turnover of HK$2,337,110,000 (2009: HK$2,010,034,000) from its continuing business, representing an increase of approximately 16.27% as compared with last year.

(1) Turnover of continuing business

During the year, turnover of the Group maintained a steady growth. The Group recorded a turnover of approximately HK$2,337,110,000 (2009: HK$2,010,034,000) from its continuing business, representing an increase of 16.27% as compared with last year. The increase was mainly attributable to the increase in IT components trading.

During the year, the turnover of IT components trading was HK$918,277,000 (2009: HK$526,588,000), representing an increase of 74.38% as compared with last year and accounted for 39.29% of the total turnover of continuing business of the Group. The turnover of IT services for the year was HK$1,329,198,000 (2009: HK$1,397,408,000), representing a decrease of 4.88% compared with last year. On the other hand, the software outsourcing business of the Company turned around and made profit due the increase in turnover by 4.18% from HK$86,038,000 of 2009 to HK$89,635,000 of 2010.

(2) Gross profit of continuing business

Gross profit of the continuing business of the Group was approximately HK$462,415,000 for the year (2009: HK$484,336,000), representing a decrease of 4.53% as compared with last year. The Group's consolidated gross profit margin of continuing business for the year decreased by 4.31% to 19.79% (2009: 24.10%). The decrease was mainly due to (i) the significant growth of IT components trading business with lower gross margin; (ii) the drop in gross margin of IT service as a result of keen competition.

(3) Selling and distribution cost and administrative expenses of continuing business

During the year, selling and distribution cost and administrative expenses of continuing business amounted to approximately HK$331,943,000 (2009: HK$233,692,000), representing an increase of 42.04% as compared with last year. The increase was mainly due to the increase in research and development costs and marketing expenses. In particular, the staff cost of Company overall increased significantly mainly due to more high-end professionals in R&D and marketing were hired to strengthen the competitiveness of the Company.

(4) Other incomes

During the year, the other incomes significantly reduced from 132,870,000 of 2009 to 68,213,000 of 2010 mainly due to reduction of government grants in amount of HK$70,839,000 compared with the last year.(2010: HK$11,027,000; 2009: HK$81,866,000)

(5) Discontinued business

In June 2010, the Board decided to discontinue its operations in the South America upon completion of the outstanding sales and commitment in view of the narrow margin, poor margin of products, long turnover of receivables as well as high currency exchange risk. The Company has discontinued the IT product trading business before the end of 2010 after completion of the committed orders. The discontinued business contributed profits of HK$18,560,000 (2009: HK$8,972,000) during the year.

(6) Profit attributable to shareholders

Net profit of continuing business attributable to shareholders for the year was approximately HK$159,412,000 (2009: HK$245,529,000), representing a decrease of 35.07% as compared with last year. The decrease was primarily due to the decrease in gross margin of the Company and significant increase in selling and distribution cost and administrative expenses. Net margin of the continuing business of the Company for the year was 6.82% (2009: 12.21%), representing a decrease of 5.39% as compared with 2009.

Basic and diluted earnings per share of continuing business and discontinued business were HK$4.72 cents (2009: HK$7.37 cents) and HK$3.85 cents (2009: HK$5.63 cents) respectively. Basic and diluted earnings per share of continuing business were HK$4.23 cents (2009: HK$7.11 cents) and HK$3.48 cents (2009: HK$5.44 cents) respectively.

(7) Financial resources and liquidity

As at 31 December 2010, shareholder's equity of the Group amounted to HK$1,683,699,000 (31 December 2009: HK$1,439,440,000). Current assets amounted to HK$2,039,823,000, of which HK$1,343,682,000 was bank deposits and cash balance which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses and redeemable convertible preferred shares, amounted to HK$698,882,000. The Group's current assets were around 2.92 times over its current liabilities (31 December 2009: 4.46 times).

As at 31 December 2010, the Group had no bank borrowings.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILIITES

As at 31 December 2010, the Group had no material contingent liabilities (31 December 2009: Nil).

CAPTIAL STRUCTURE

The Group finances its operations mainly from shareholder equity, internal generated funds in 2010.

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 2011, 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 10,786,817 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.

On 15 December 2010, 2008 convertible bonds were converted into 21,446,262 ordinary shares. Without fulfilling the conditions of 2009 Convertible Notes (detailed in Circular dated 13 June 2008), the 2009 Convertible Notes were cancelled accordingly.

On 10 December 2010, 60,100,000 options granted under 2008 Share Option Scheme. By the end of year, 24,040,000 options were vested but not exercised.

ACQUISITIONS

In April 2010, the Company, through Inpsur Genersoft, a wholly-owned subsidiary of the Company, invested RMB17,970,000 in Beijing Shenzhou Aerospace Software Company Ltd("北京神舟航太軟件有限公司")("BJSASC"), representing 5.56% equity interest of BJSASC.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group had 2950 employees (2009: 2,774), representing an increase of 176 employees as compared with 2009. The increase was mainly as a result of the enhancement on our R&D and marketing ability for future development.

Total employee remuneration, including directors' remuneration and mandatory provident fund contributions, amounted to approximately HK$245,500,000(2009: approximately HK$179,845,000).

According to a comprehensive remuneration policy, which was formulated by the Group and reviewed by the management, employees are remunerated based on 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. In addition, the Group provides mandatory provident fund, medical and insurance schemes for employees. The Group also offers continuous education and training programmes to the management and other employees to enhance their skills and knowledge.

On 10 December 2010, 60.10 million options granted under 2008 Share Option Scheme to our senior management and top R&D employers to encourage our staff create and share value without shareholders.

CHARGES ON ASSETS

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

BUSINESS REVIEW

2010 was a year full of challenges. Competition of our major products 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 focused in the development of our business with competitive edges(專業化領先戰略). 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. Research and development in cloud computing, logistic network and new technology was strengthened. More efforts were put on the establishment of systems for market and product development for the expansion of markets and strengthened the scale and market share of its core business.

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 solution, the Company obtained integrated IT services range from applications, IT consultancy, assembling of systems, operation maintenance, outsourcing and intelligent terminals.

Major segments of IT services are as follows:

(1) Software and related services

During the reporting period, the Company strategically developed its businesses with competitive edge(專業化領先戰略)and further enhance its services by providing dedicated, caring and professional customer services. The Company established a customer-oriented organizational and set up new departments specially focus in the manufacturing, corporate management, architecture and annuity industries. Through training and hiring professionals, we aim to differentiate from its competitors in terms of competitive edges and technology capacity. Besides further strengthening the development of general products, the Company focused on particular markets. Aiming to rapidly expand and refine our products and resolutions, the Company provide better services to the customers by understanding their needs, which sharpens the Company’s competitive edges.

As the Company put more efforts in research and development, in our new launch version 5.2, the modules increased to 47, which supported browser and SmartClient. New versions provide services and resolutions covering more than 30 industries including military, equipment manufacture, construction, coal, pharmaceutical, fast consuming industry, pensions, government and public utilities, etc. The Company commenced research and development of GSP7.0 in the latest cloud computing technology to support the entire life cycle of business application and laid solid foundation for the next GS version. The Company has completed the initial research and development of new eHR products. In addition, the Company optimized its financial management software such as CRDS credit risk management system and value and performance management system, tax management software such as tax decision-making supporting and analysing system, anti-counterfeiting receipt lottery system and USB-KEY security module for online invoicing. In respect of government software services, the Company enriched the ECGAP product line by upgrading government public resources management solutions and electronic monitoring products to form integrated solutions of anticorruption. The Company successfully developed V2.0 version of integrated resources based on ONEOSS 2.0 system of China Mobile, and completed the development of and delivered the telecommunication and on-site supervision system to Guangdong Mobile successfully in Asian Games It also launched an innovated mobile payment operating platform with Shandong Mobile. Products such as Inspur BI（浪潮 BI）was in the list of major new product of China.

In 2010, , the Company further expanded its market presence by allocating more resources and manpower to major sectors and regions and organizing large scale activities including industry seminar, senior management forum and regional forum in order to enhance our market brand name. In 2010, our market coverage was enlarged. E-governance products extended to Anhui and Hainan provinces, and successfully provided IT solution services to governments of major cities such as Guangzhou, Shenzhen, Zhuhai, Jinan and Hefei, and other cities including Puyang and Fengtai of Beijing. As at the end of the reporting period, the Company has over 80 prefectural-level customers. Our OSS telecommunication products have entered new market such as Fujian and overseas market such as Tanzania. The Company's OSS products have presence in the market of China Mobile in 18 provinces, the market of China Unicom in 7 provinces and the market of China Telecom in several provinces. The products are applied by 22 telecom operators in 19 overseas countries. The Company continued to be strategic partners with our major customers, including CHANA, South Ordnance Industry Corporation, HPGC, CASC, CCGRP, China Railway Group and Sinograin, and consolidate its leading position in high-end solution service sectors, such as group management, business intelligence and supply chain.

In 2011, in the face of the immense opportunities brought by the integration of cloud computing and 3-network, the Company will transform into a cloud computing service provider. Aiming to expand scale of operations, achieve rapid development and increase its market shares, the Company will also strive to make innovation, emphasize on the research and development in “cloud computing for specific industry(行業雲)” and develop value-added service business such as data business.

(2)Embedded systems and related services

Business intelligent terminals market in China has huge potential. The banking industry and government taxation are experiencing rapid changes and development under the era of cloud computing. The Company realises the importance of improving its core competitiveness to grasp development trend of this market.

In the tax-collection machine market, a total of 16 provinces and municipalities have accomplished tender of tax-collection cashier machines and the Company was selected as the qualified supplier for 14 provinces and municipalities up to present. However, the overall development progress in this market remained slow. In particular, the recent new concepts of “E-filing of tax filing”(網絡報稅) and “tax management based on information”(信息管稅) , which replaced the traditional “tax management based on invoices” method, as suggested by the State Administrative of Taxation has an adverse impact on the traditional tax-collection machine market. According to survey statistics, certain industries in approximately 28 provinces in China have adopted various types of online invoicing, and market players took a wait-and-see attitude. To cope with the situation, the Company has developed an end product line including an online integrated invoice machine(在線開票一體機), which allowed online operation of the tax-collection machines, and certain products have started trial application. The Company is also developing other products and solutions and attempting to expand its market sales network by conducting sales through equipment manufacturers and operating and maintenance service providers in order to further enhance its market shares.

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 put on trial in 18 provinces and municipalities including Shandong, Jilin, Shanxi, Hebei, Chongqing and Shanghai. The Company was also a qualified supplier of the State Administrative of Taxation. In the future, the Company will further improve the structure and function of ARM products and lower its costs.

In respect of the automatic financial terminal market, the Company has engaged Construction Bank of China Zhejiang Branch, Agricultural Bank of China Chongqing Branch, China Life and Huishang Bank as our new customers. As for high-end products of E-banking, the Company has engaged Headquarters of Bank of China, Agricultural Bank of China Henan Branch and Everbright Bank Shandong Branch. However, the sales and gross profit margin during the period decreased due to the intensified market competition and indistinct characteristic of our products. Thus, more measures will be taken by the Company to enhance its capabilities in consultation and service provision.

(3) 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.

In 2010, the global outsourcing market saw a slow recovery with fierce competition. The Company further transformed its business structure and operating models to cater for the market changes and customer demands. It placed equal importance on European, American and Japan markets as well as domestic outsourcing market. 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 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.

2. IT components trading

During the reporting period, in continuing operations of the Group, IT components trading business recorded turnover of approximately HK$918,277,000, accounting for 39.29% of total turnover and contributing to 33.24% of segment results. The Company will maintain its advantage in sales channels and the stable development of IT components business through enlarging its customer base.

3. Discontinued operations - International sales of IT products

In view of its nature of low profits, long operating cycle and low margin and high foreign exchange risk, 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 the Venezuela market. However, the Group will strive to complete all related outstanding orders and commitments respectively. The outstanding balances were settled and this business was terminated by the end of 2010. During the year, the discontinued operations contributed profits of approximately HK$18,560,000 (2009: approximately HK$8,972,000).

Prospects

2011 is the first year of the "Twelfth Five-Year Plan". At the beginning of the year, the government issued the Certain Policies to Further Promote the Development of Software Industry and Integrated Circuit Industry ("New Circular No. 18"), which showed the government's support to and expectation on the development of the domestic software service providers. As a strategic emerging industry, cloud computing and related industry will enter a new era with numerous strategic opportunities.

During the period of the "Twelfth Five-Year Plan", aiming to "lead the IT boom and promote civilization of the community" and according to the changes in domestic and overseas markets, the Company will embrace opportunities and challenges brought by the new technology including cloud computing and logistic network to transform from a software and solution supplier to a cloud computing service provider.

In 2011, the Company will continue to develop its businesses with competitive edge(專業化領先戰略), adjust and optimize the existing organizational structure and improve human resources structure to enhance its integrated competitiveness. Besides, the Company plans to expand its core business scale and market shares by accelerating business expansion, increasing investment, expanding sales channels, enlarging size of marketing team and strengthening brand promotion and market expansion. More efforts will be put in research and development in order to achieve breakthrough in middleware of cloud application platform and cloud application products and to enhance product competitiveness and value. Leveraging on the opportunities of cloud computing, the Company plans to develop new business and service modes, improve service quality and efficiency, and explore strategic opportunities to expand into the small-to-medium enterprise market. The Company will also put more efforts in conducting external cooperation, merger and acquisition. In the face of various challenges, the Company will endeavour to keep its advantageous position in the IT services industry by implementing and carrying out its plans and works.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares during the year.

CODE ON COPRPORATE GOVERNANCE PRACTICES

The Group has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 31 December 2010, save as notice of at least 14 days, as required under Code A 1.3, was not adequately given for some regular board meeting which were scheduled on date such that most directors were able to attend. Also, the chairman of the Board, as required under Code E.1.2, was not able to attend the annual general meeting because of other conference committed.

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31 December 2010.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2010, including the accounting principles and practices adopted by the Group, and is of the opinion that the preparation of such results comply with applicable accounting standards and requirements, and that adequate disclosures have been made.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 20 May 2011 to Thursday, 26 May 2011 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Thursday,19 May 2011.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 25 Mar 2011

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.