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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)

HALF-YEAR RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 2011 together with comparative unaudited figures for the corresponding period in 2010.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 (UNAUDITED)

		Six months ended 30 June	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
			(restated)
Continuing operations			
Revenue	2	**1,029,634**	939,038
Cost of sales		**(775,712)**	(704,224)
Gross profit		**253,922**	234,814
Other income	3	**39,406**	27,292
Administrative and other operating expenses		**(122,141)**	(85,099)
Selling and distribution cost		**(104,023)**	(60,407)
Amortisation of other intangible assets		**(8,088)**	(9,939)
Interest expenses		**(7,566)**	(7,533)
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		**5**	(676)
Share of profit less loss of associates		**(5,073)**	15,823
Profit before taxation	4	**46,442**	116,399
Taxation	5	**(4,879)**	(11,190)
Profit for the period from continuing operations		**41,563**	105,209
Discontinued operations			
Profit for the period from discontinued operations		**-**	14,705
Profit for the period		**41,563**	119,914
Profit for the period from continuing and discontinued operations			
- Profit for the period from continuing operations		**41,712**	105,095
- Profit for the period from discontinued operations		**-**	14,705
		41,712	119,800
Non-controlling interests from continuing operations		**(149)**	114
		41,563	119,914
Earnings per share from continuing and discontinued operations	6		
Basic		**1.10 cents**	3.18 cents
Diluted		**0.99 cents**	2.53 cents
Earnings per share from continuing operations	6		
Basic		**1.10 cents**	2.79 cents
Diluted		**0.99 cents**	2.23 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Net profit for the period	**41,563**	119,914
Other Comprehensive Income:		
Exchange Difference arising on translation of foreign operations	**38,326**	12,064
Total Comprehensive Income for the period	**79,889**	131,978
Total comprehensive income attributable to:		
Owners of the Company	**80,653**	131,938
Minority interests	**(764)**	40

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	Notes	**30.6.2011** **HK$'000** **(unaudited)**	31.12.2010 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**91,287**	101,124
Goodwill		**78,958**	77,174
Other intangible assets		**47,435**	54,969
Available-for-sale Investment		**22,242**	21,740
Interests in associates		**124,822**	127,019
		364,744	382,026
Current assets			
Inventories		**166,429**	170,361
Trade receivables	8	**252,668**	243,819
Prepayments, deposits and other receivables		**60,189**	70,023
Amounts due from customers for contract work		**84,077**	65,532
Amount due from fellow subsidiaries	8	**100,730**	82,917
Amount due from immediate holding company	8	**59,499**	59,555
Amount due from ultimate holding company	8	**3,772**	1,402
Taxation recoverable		**-**	2,532
Bank balances and cash		**1,312,261**	1,343,682
		2,039,625	2,039,823
Current liabilities			
Trade and bills payables	9	**181,567**	282,723
Other payables, deposits received and accrued expenses		**154,109**	110,306
Amounts due to customers for contract work		**23,709**	39,389
Amount due to fellow subsidiaries	9	**22,340**	20,027
Amount due to ultimate holding company	9	**21,632**	14,618
Amount due to non-controlling interests of a subsidiary		**3,131**	3,060
Deferred Income- government grant		**1,830**	5,085
Redeemable convertible preferred shares		**203,074**	201,400
Taxation payable		**3,309**	22,274
Dividend payable		**37,916**	-
		652,617	698,882
Net current assets		**1,387,008**	1,340,941
Total assets less current liabilities		**1,751,752**	1,722,967
Non-current liabilities			
Deferred income-government grant		**-**	11,475
Deferred tax liabilities		**23,078**	24,852
		23,078	36,327
		1,728,674	1,686,640

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

	Notes	**30.6.2011**	31.12.2010
		HK$'000	HK$'000
		(unaudited)	(audited)
Capital and reserves			
Share capital	11	**7,583**	7,583
Reserves		**1,718,914**	1,676,116
Equity attributable to owners of the Company		**1,726,497**	1,683,699
Minority interests		**2,177**	2,941
Total equity		**1,728,674**	1,686,640

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital *HK$'000*	Share Premium *HK$'000*	Special Reserve *HK$'000*	Preferred shares equity reserve *HK$'000*	Share option reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits (loss) *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 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
Redeemable convertible preferred shares	—	—	—	1,141	—	—	—	1,141	—	1,141
Dividend paid	—	—	—	—	—	—	(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**
At 1 January 2011	**7,583**	**792,439**	**92**	**17,438**	**9,698**	**127,496**	**728,953**	**1,683,699**	**2,941**	**1,686,640**
Exchange differences arising from translation of overseas operation	—	—	—	—	—	38,941	—	38,941	(615)	38,326
Profit for the period	—	—	—	—	—	—	41,712	41,712	(149)	41,563
Total recognise profit (loss) for the period	—	—	—	—	—	38,941	41,712	80,653	(764)	79,889
Preferred shares	—	—	—	61	—	—	—	61	—	61
Dividend payable	—	—	—	—	—	—	(37,916)	(37,916)	—	(37,916)
At 30 June 2011	**7,583**	**792,439**	**92**	**17,499**	**9,698**	**166,437**	**732,749**	**1,726,497**	**2,177**	**1,728,674**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH GENERATED FROM OPERATING ACTIVITIES	**(66,944)**	(79,549)
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	**8,833**	10,844
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(2,034)**	(1,954)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(60,145)**	(70,659)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,343,682**	918,347
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**28,724**	6,315
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**1,312,261**	854,003

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)-IN'T") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2011. 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

At the end of 2010, the Group had discontinued the business of manufacturing and sales of IT products. The Group is currently organized into three operating divisions, namely trading of IT components, 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 2011

		Information technology services		
	Trading of IT components	Software and embedded solution	software outsourcing	Total
	HK$'000	*HK$'000*	HK$'000	*HK$'000*
Revenue	**456,909**	**507,741**	**64,984**	**1,029,634**
Segment results	**41,641**	**13,552**	**6,176**	**61,369**
Unallocated income				**2**
Unallocated corporate expense				**(2,295)**
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss				**5**
Share of results of associates	–	**(5,073)**	–	**(5,073)**
Interest expenses				**(7,566)**
Profit before taxation				**46,442**
Taxation				**(4,879)**
Profit for the period				**41,563**
Reportable segment Asset	**167,256**	**2,141,981**	**95,132**	**2,404,369**
Reportable segment Liabilities	**128,416**	**533,044**	**14,235**	**675,695**

2. REVENUE AND SEGMENT INFORMATION (CON'T)

Business segment (CON'T)

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

	Continuing operations				Discontinued operations	
		Information technology services				
	Trading of IT components	Software and embedded solution	software outsourcing	Total	manufacturing and sales of IT products	Total
	HK$'000	*HK$'000*	HK$'000	HK$'000	HK$'000	*HK$'000*
Revenue	401,408	498,591	39,039	939,038	351,363	1,290,401
Segment results	31,410	75,604	1,864	108,878	16,806	125,684
Unallocated income				1		1
Unallocated corporate expense				(2,218)		(2,218)
Fair value change in convertible notes classified as liabilities at fair value through profit or loss				2,124		2,124
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss				(676)		(676)
Share of results of associates	–	15,823	–	15,823		15,823
Interest expenses				(7,533)		(7,533)
Profit before taxation				116,399	16,806	133,205
Taxation				(11,190)	(2,101)	(13,291)
Profit for the period				105,209	14,705	119,914
Reportable segment Asset	154,964	1,982,728	73,699	1,987,246	224,145	2,211,391
Reportable segment Liabilities	97,930	568,530	8,879	536,181	139,158	675,339

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, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Hong Kong	**456,909**	401,408
The PRC	**572,725**	537,630
Consolidated	**1,029,634**	939,038

3. Other income

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Interest income	**11,575**	3,866
VAT refund	**13,090**	15,113
Government subsidies and grants	**12,850**	7,964
Others	**1,891**	349
	39,406	27,292

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**692,091**	643,329
Depreciation	**16,007**	14,586
Amortisation of other intangible assets	**8,088**	9,939

5. TAXATION

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Current tax:		
Hong Kong	**6,871**	5,183
PRC Enterprise Income Tax	**(217)**	8,430
Deferred taxation	**(1,775)**	(2,423)
	4,879	11,190

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	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit from continuing and discontinued operations		
Earnings/ (loss) for the purpose of basic earnings/ (loss) per share (Profit/ (loss) for the period attributable to equity holders of the parent)	**41,712**	119,800
Interest on redeemable convertible preferred shares	**7,566**	7,532
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	**(5)**	676
Fair value change in convertible notes classified as liabilities at fair value through profit or loss	**-**	(2,124)
Earnings for the purpose of diluted earnings/ (loss) per share	**49,273**	125, 884
Profit from continuing operations		
Earnings/ (loss) for the purpose of basic earnings/ (loss) per share (Profit/ (loss) for the period attributable to equity holders of the parent)	**41,712**	105,095
Interest on redeemable convertible preferred shares	**7,566**	7,532
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	**(5)**	676
Fair value change in convertible notes classified as liabilities at fair value through profit or loss	**-**	(2,124)
Earnings for the purpose of diluted earnings/ (loss) per share	**49,273**	111,179
Number of shares (in thousand)		
Weighted average number of ordinary shares for the purpose of basic earnings/ (loss) per share	**3,791,567**	3,770,121
Effect of dilutive potential ordinary shares		
–share options	**17,614**	18,603
–redeemable convertible preferred shares	**1,186,124**	1,174,169
–convertible notes	**-**	21,446
Weighted average number or ordinary shares for the purpose of diluted earnings/ (loss) per share	**4,995,305**	4,984,339

7. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: 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:

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Trade receivables		
0-30 days	**94,905**	149,933
31-60 days	**21,907**	39,481
61-90 days	**8,551**	6,605
91-120 days	**19,476**	3,419
Over 120 days	**107,829**	44,381
	252,668	243,819

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due from fellow subsidiaries		
0-30 days	**84,252**	76,353
31-60 days	**1,512**	178
61-90 days	**2,245**	-
91-120 days	**5,198**	-
Over 120 days	**7,523**	6,386
	100,730	82,917

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due from immediate holding company		
0-30 days	**54,705**	59,555
31-60 days	**4,794**	-
	59,499	59,555

TRADE RECEIVABLES (CON'T)

	30.6.2011	31.12.2010
	HK$'000	HK$'000
	(unaudited)	(audited)
Amounts due from ultimate holding company		
0-30 days	**1,597**	1,081
31-60 days	**-**	-
61-90 days	**2,046**	321
91-120 days	**104**	-
Over 120 days	**25**	-
	3,772	**1,402**

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:

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Trade and bills payables		
0-30 days	**108,942**	200,489
31-60 days	**8,082**	33,954
61-90 days	**16,222**	23,720
Over 90 days	**48,321**	24,560
	181,567	282,723

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due to fellow subsidiaries		
0-30 days	**7,366**	2,064
31-60 days	**1,559**	8,788
61-90 days	**86**	83
Over 90 days	**13,329**	9,092
	22,340	20,027

TRADE PAYABLES (CON'T)

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due to ultimate holding company		
0-30 days	**1,217**	14,618
31-60 days	**20,364**	-
61-90 days	**-**	-
Over 90 days	**51**	-
	21,632	14,618

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. By the end of June 2011, the Company issued 16,810,776 scrip dividend shares with principal amount of HK$11,954,495 subject to the Supplemental Deed.

By the end of June 2011,total number of 251,090,335 preferred shares been issued accordingly which is entitled to convert into 1,188,208,571 underlying Shares represented approximately 23.86% 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".

REDEEMABLE CONVERTIBLE PREFERRED SHARES (CON'T)

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

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Carrying amount at the beginning of the period/ year	**201,400**	187,676
Interest charges	**7,566**	14,734
Coupon interest paid	**(2,034)**	(1,010)
Coupon interest payable included in other payables and accrued expenses	**(3,794)**	—
Valuation	**(64)**	—
	203,074	201,400

11. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*
Ordinary shares of HK$0.002 each		
Authorised:		
At 1 January 2011	10,000,000	20,000
Issued:		
At 1 January 2011	3,791,567	7,583
At 30 June 2011	3,791,567	7,583

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

12. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in the condensed consolidated balance sheet, 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.2011	30.June.2010
		HK$'000	*HK$'000*
	Note	***(unaudited)***	*(unaudited)*
Supply Transactions	(i)	**196,102**	444,871
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	**144,654**	39,738
(2) The related commission amount		**1,193**	336
Purchase Transactions	(iii)	**19,104**	87,795
Common Services Transactions	(iv)	**5,476**	4,244
Processing Transactions	(v)	**58,057**	59,964
Software Outsourcing Services	(vi)	**41,987**	19,748

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

The Group's interim results show the following trends:

(1) Satisfactory growth of revenue from continuing operations

During the reporting period, the Group recorded a turnover of HK$1,029,634,000 (2010: HK$939,038,000) from continuing operations, representing an increase of 9.65% as compared with the corresponding period of last year. IT services business recorded a turnover of HK$572,725,000 (2010: HK$537,630,000), representing an increase of 6.53% as compared with the corresponding period of last year. Its segment results accounted for 32.15% of the overall results. The total revenue from IT components trading segments amounted to HK$456,909,000 (2010: HK$401,408,000), representing an increase of 13.83%.

(2) Decrease in profit from continuing operations

During the reporting period, gross profit was HK$253,922,000 (2010: HK$234,814,000), representing an increase of 8.14%, with gross margin of 24.66% (2010: 25.01%). Net profit attributable to shareholders from continuing operations was HK$41,712,000 (2010: HK$105,095,000). Earnings per share and diluted earnings per share from continuing operations were HK$1.1cents (2010: 2.79 cents) and HK$0.99 cents (2010: HK$2.23 cents) respectively.

Decrease in gross profit margin was mainly due to the revenue contribution from lower margin business such as IT components trading increased.

And Net margin from continuing operations significantly decreased by 60.31% to HK$41,712,000 (2010: HK$105,095,000) 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 55.43% to HK$226,164,000 (2010: 145,506,000) 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 interest to loss HK$5,073,000 from associate during the reporting period as compared with the corresponding period of last year.

(3) Strong cash flow and sound liquidity

As at 30 June 2011, shareholders' funds amounted to approximately HK$1,726,497,000 (31 December 2010: HK$1,683,699,000). Current assets were approximately HK$2,039,625,000, including cash and bank balances of HK$1,312,261,000, 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$652,617,000, mainly comprised trade payable, amount due to fellow subsidiaries, other payables and accrued expenses, and tax payable. The Group's current assets were 3.13 times (31 December 2010: 2.92 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2011.

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 4,191,464 scrip dividends, each can be converted to one ordinary share, were issued to Microsoft pursuant to an agreement dated 24 September 2009.

Employee information

At 30 June 2011, the Group had 3,256 (30 June 2010: 2,858) employees. Total employee remuneration, including the Directors' fees and contributions to the Mandatory Provident Funds, amounted to approximately HK$121,762,000 (2010: HK$73,661,000) 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 2011, none of the Group's assets was pledged (31 December 2010: 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 2011, the Group had no material contingent liabilities (31 December 2010: nil).

BUSINESS REVIEW

In the first half of 2011, the Company further developed the IT solution business by leveraging on its expertise on software and hardware technologies pursuant to its strategy of "developing business with technical advantages". The Company focused on the provision of services and successfully developed high-end customer base. The Company increased investments in the research and development of cloud computing, logistic network and other new technologies and launched new series of products using cloud computing technology, including GS, eHr and BI, which further enhanced the Company's core competitiveness. The Company strengthened its marketing efforts to consolidate its market share. The Company will establish a solid foundation for future development by converting itself into a cloud computing solution and service provider and consolidating its position in all niche markets in three years.

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.

IT services business mainly include:

(1) Software and related services

During the reporting period, pursuant to the strategy of "developing business with technical advantages", the Company developed its high-end customer base from promising industries by providing high level planning consulting services and integrated solutions. The Company distinguished itself from the rivals by strengthening its competitiveness. In addition, the Company successfully engaged talents to join its professional team. The Company delegated more responsibilities to product managers to improve the efficiency in consulting, pre-sale coordination, R&D and launching of products. With the implementation of CMMI5, the Company further improved project management and product quality. The Company continued the research and development and launched new or upgraded products such as GS, eHr, BI, ECGAP, tax planning and wealth management products. New technologies and features of cloud computing and logistics network are available in our products, reflecting our product philosophy of "integrated, versatile, sophisticated and intelligent". We have improved our internal control and risk management on operation, budget management and supply chain. Our comprehensive budget management system has been upgraded to facilitate the closed-end target management. We have improved our systems for e-business, procurement control, inventory management and online payment to support XBRL. In respect of telecommunication software, the three major carriers mainly use integrated systems for their network construction. During the reporting period, the Company strengthened its cooperation with three major carriers. As one of China Mobile's major software suppliers, the Company participated in the R&D of integrated system by China Mobile. The Company successfully bid for the resource management and complaint conveying systems of China Mobile in Guangdong, Ningxia and Hebei, which will support the Company's business expansion in these provinces. On the other hand, the Company actively identified opportunities in radio and television broadcasting market to launched more OSS-related products. The Company has entered into letters of intent with some customers for the development of pricing and network management systems.

In the first half of 2011, the Company continued to reorganize its business structure and marketing department. Marketing activities are targeted to different regional and segment markets. We cooperated with the relevant government authorities and industry associations to organize seminars and product presentation. We regularly visited senior management to maintain strong foothold in local markets to gain shares in regional markets and segment markets. In the first half of the year, the Company enlarged its market shares by entering into new contracts with telecommunication operators in Bolivar, Tajikistan for its OSS products, which will be applied by 27 telecommunication operators in 24 overseas countries. Our ECGAP product successfully bid for the approval processing and monitoring system of Jiangxi provincial government and public administration system of Anhui provincial government. As at the date of this report, we have approximately 100 customers of prefecture-level government.

(2) Embedded systems and related services

Business intelligence terminal market in China has huge potential. In particular, with the emerging of new technologies such as cloud computing, financial and taxation terminal markets are 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, during the current period, our tax-collection products have been promoted and applied in 14 cities in which we won tenders in previous period. As there was no new tender in the first half of the year, sales of traditional tax-collection machine decreased. Taxation related products developed by the Company, including integrated online invoice machine (在線開票一體機), have been facilitated with online function for tax-collection machine products. In order to enhance the development of the online invoice machine market, the Company has set up a new department which is responsible for further developing internet backup system and series of online invoice terminals. The Company also conducted trial run of such products in certain markets, and it is expected to be commercialized in the beginning of next year. The Company has also strived to develop other products and solutions, and enhance its marketing efforts and market shares through terminal equipment manufacturers, operation and maintenance service providers.

In respect of the automatic rate-paying machine ("ARM") market, the Company commenced the sales of small amounts of self-developed ARM (自動辦稅終端). It is expected that with the promotion and application of the projects of the State Administration of Taxation, taxation authorities in other provinces and cities may follow and purchase such machines, which will facilitate the development of the automatic rate-paying machine market and further enhance the Company's position in the automatic rate-paying machine market. In future, we will further optimize the product mix and functions of our ARM products and reduce our costs to cope with the adverse effect of relatively low pricing of our competitors.

In respect of the automatic financial terminal market, the Company successfully won the bid for the automatic terminal projects of headquarters of Agricultural Bank of China and Bank of China. In addition, the Company has actively responded to financial clients' demands in expanding third party value-added businesses by increasing our investments in research and development projects of various specific automatic terminal machines, such as banking and medical automatic terminals (銀醫自助終端), automatic card-issuing machines (自助發卡機) and automatic front desk machines(櫃面通). Such products are expected to consolidate the Company' s competitiveness in the automatic financial terminal market. The Company will continue to enhance the development in the financial industry and transform to a comprehensive service provider by further optimizing and diversifying its product portfolio, expanding market coverage and improving its consulting and servicing capabilities.

(3) Software outsourcing business

In respect of the software outsourcing business, the Group has mainly 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 (such as data processing, operation and maintenance outsourcing and call center) as well as the product development outsourcing ("PDO") services (such as development of software products, semi-finished parts and platform) for top 500 corporations and outstanding IT companies in the world.

In 2011, the outsourcing market has recovered as investments in IT market has gradually rebounded. The Company actively optimized its business structure and focused on the development in Europe, US, Japan and China markets, particularly the continuous development of applications in mobile communication industry, embedded systems and terminal applications, software testing, corporate management systems and data processing. The Company has also maintain a long term cooperation with Microsoft, China Mobile, NTT DATA, FITEC and KNT to ensure relatively satisfactory operating results of outsourcing business. The significant capital investments in cloud computing, internet of things and communication industry by various governments, industrial and corporate clients have brought new opportunities for outsourcing industry. The Company has closely monitored the development trends of emerging areas and integrated the technologies and structures of its diversified product lines. In addition to the establishment of cloud computing platform, the Company has promoted technology innovation, system development and application and maintenance services to provide "one-site" outsourcing solutions to its customers.

2. IT components trading

During the reporting period, component trading business recorded turnover of approximately HK$456,909,000, accounting for 44.38% of the total turnover and contributing to 67.85% of segment results. The Company will maintain the stable development of IT components business through enlarging its customer base and sales channels.

3. Discontinued business - manufacturing and sales of IT products

Given the low profits, long operating cycle, low gross profit margin and high foreign exchange exposure in the manufacturing and sales of IT products which are not in line with the core business of the Group as an integrated IT service provider, the Company terminated this business segment by the end of 2010. The business recorded turnover of approximately HK$351,363,000 in the corresponding period last year, with a gross profit of approximately HK$16,806,000 and segment results of approximately HK$14,705,000.

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 2011, 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 (note1)	20,000,000	0.0648
Wang Xingshan	Beneficial owner	Share option (note2)	5,000,000	0.682
Chen Dongfeng	Beneficial owner	Share option (note2)	4,000,000	0.682
Dong Hailong	Beneficial owner	Share option (note2)	2,000,000	0.682
Meng Xiangxu	Beneficial owner	Share option (note2)	200,000	0.682
Wong Lit Choi	Beneficial owner	Share option (note2)	200,000	0.682

Note: (1)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.

(2)On 10 December 2010, the share option were grant to other director under the option scheme.

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

As at 30 June 2011, 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 2011, 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	35.72%
Inspur Electronics (HK) Limited	Beneficial owner	1,354,390,000	35.72%
Matthews International Capital Management, LLC	Fund Manager	343,745,000	9.06%
The Hamon Investment Group Pte Limited	Fund Manager	262,050,000	6.91%
The Dreyfus Corporation	Fund Manager	211,565,000	5.58%

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 2011, 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	251,090,335	1,188,208,571	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. As at 30 June 2011, the above 251,090,335 preferred shares convertible into 1,188,208,571 underlying Shares represented approximately 23.86% 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 2011, 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 2011, 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. On 10 December 2010, a total of 60,100,000 share options were grant to certain employees and directors of the group under the option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$0.682 per share.

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. Zhang Ti Qin 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 2011, save as 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 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 2011

By Order of the Board

Inspur International Limited

Sun Pishu

Chairman

Hong Kong, 29 August 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. Zhang Ti Qin and Mr. Wong Lit Chor, Alexis as independent non-executive Directors.