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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 2012

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 2012 together with comparative unaudited figures for the corresponding period in 2011.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	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	2	**1,070,780**	1,029,634
Cost of sales		**(792,084)**	(775,712)
Gross profit		**278,696**	253,922
Other income	3	**39,677**	39,406
Administrative and other operating expenses		**(161,170)**	(122,141)
Selling and distribution cost		**(129,762)**	(104,023)
Amortisation of other intangible assets		**(8,293)**	(8,088)
Interest expenses		**(3,231)**	(7,566)
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss		**(5,400)**	5
Share of profit less loss of associates		**2,980**	(5,073)
Profit before taxation	4	**13,497**	46,442
Taxation	5	**(5,692)**	(4,879)
Profit for the period		**7,805**	41,563
Profit for the period		**10,475**	41,712
Non-controlling interests		**(2,670)**	(149)
		7,805	41,563
Earnings per share operations	6		
Basic		**0.25 cents**	1.10 cents
Diluted		**0.25 cents**	0.99 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Net profit for the period	**7,805**	41,563
Other Comprehensive Income:		
Exchange Difference arising on translation of foreign operations	**9,920**	38,326
Total Comprehensive Income for the period	**17,725**	79,889
Total comprehensive income attributable to:		
Owners of the Company	**20,345**	80,653
Minority interests	**(2,620)**	(764)

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	Notes	**30.6.2012**	31.12.2011
		HK$'000	*HK$'000*
		(unaudited)	*(audited)*
Non-current assets			
Property, plant and equipment		**80,397**	90,778
Goodwill		**78,078**	77,649
Other intangible assets		**31,288**	39,493
Available-for-sale Investment		**22,690**	22,566
Interests in associates		**123,206**	122,175
Interest in a jointly controlled entity		**117,079**	114,219
		452,738	466,880
Current assets			
Inventories		**165,261**	97,083
Trade receivables	8	**251,900**	202,894
Prepayments, deposits and other receivables		**63,959**	66,368
Amounts due from customers for contract work		**82,354**	50,237
Amount due from fellow subsidiaries	8	**89,109**	100,479
Amount due from immediate holding company	8	**56,087**	33,896
Amount due from ultimate holding company	8	**24,144**	19,258
Amount due from non-controlling interest of a subsidiary		**-**	20
Taxation recoverable		**3,107**	1,980
Bank balances and cash		**1,187,329**	1,255,855
		1,923,250	1,828,070
Assets classified as held for sale		**-**	60,103
		1,923,250	1,888,173
Current liabilities			
Derivative financial instruments		**15,000**	9,600
Trade and bills payables	9	**165,536**	161,159
Other payables, deposits received and accrued expenses		**197,629**	139,591
Amounts due to customers for contract work		**62,731**	37,253
Amount due to fellow subsidiaries	9	**14,371**	19,746
Amount due to ultimate holding company	9	**1,673**	4,787
Amount due to non-controlling interests of a subsidiary		**3,194**	3,177
Deferred Income- government grant		**586**	3,271
Taxation payable		**14,196**	16,869
		474,916	395,453
Liabilities associated with assets classified as held for sale		**-**	31,663
		474,916	427,116
Net current assets		**1, 448,334**	1, 461,057
Total assets less current liabilities		**1,901,072**	1,927,937
Non-current liabilities			
Deferred income-government grant		**6,894**	2,663
Redeemable convertible preferred shares		**63,519**	63,519
Deferred tax liabilities		**20,752**	22,668
		91,165	88,850
		1,809,907	1,839,087

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

	Notes	**30.6.2012**	31.12.2011
		HK$'000	HK$'000
		(unaudited)	(audited)
Capital and reserves			
Share capital	11	**8,415**	8,415
Reserves		**1,797,539**	1,826,220
Equity attributable to owners of the Company		**1,805,954**	1,834,635
Minority interests		**3,953**	4,452
Total equity		**1,809,907**	1,839,087

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital	Share Premium	Special Reserve	Preferred shares equity reserve	Share option reserve	Translation reserve	Retained profits (loss)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 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**
At 1 January 2012	**8,415**	**858,815**	**92**	**13,443**	**20,484**	**191,941**	**741,445**	**1,834,635**	**4,452**	**1,839,087**
Exchange differences arising from translation of overseas operation	—	—	—	—	—	9,870	—	9,870	50	9,920
Profit for the period	—	—	—	—	—	—	10,475	10,475	(2,670)	7,805
Total recognise profit (loss) for the period	—	—	—	—	—	9,870	10,475	20,345	(2,620)	17,725
Recognition of equity-settled share based payments					1,126			1,126		1,126
Dividend payable	—	—	—	—	—	—	(50,489)	(50,489)	—	(50,489)
Non-controlling interests upon establishment of a subsidiary	—	337	—	—	—	—	-	337	2,121	2,458
At 30 June 2012	**8,415**	**859,152**	**92**	**13,443**	**21,610**	**201,811**	**701,431**	**1,805,954**	**3,953**	**1,809,907**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH GENERATED FROM OPERATING ACTIVITIES	**(37,917)**	(66,944)
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	**16,116**	8,833
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(52,278)**	(2,034)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(74,079)**	(60,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,255,855**	1,343,682
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**5,553**	28,724
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**1,187,329**	1,312,261

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules.

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

In the current interim period, the Group has applied for some revised standards and amendments and interpretations ("HK(IFRIC)-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 2012. The adoption of the new HKFRSs has no material effect on the condensed consolidated financial statement for the current or prior accounting period.

2. REVENUE AND SEGMENT INFORMATION

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

Business segment

The Group is currently organized into 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 2012

		Information technology services		
	Trading of IT components	Software and embedded solution	software outsourcing	Total
	HK$'000	*HK$'000*	HK$'000	*HK$'000*
Revenue	**559,928**	**419,539**	**91,313**	**1,070,780**
Segment results	**46,203**	**(28,670)**	**5,302**	**22,835**
Unallocated income				**2**
Unallocated corporate expense				**(3,689)**
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss				**(5,400)**
Share of results of associates	–	**2,980**	–	**2,980**
Interest expenses				**(3,231)**
Profit before taxation				**13,497**
Taxation				**(5,692)**
Profit for the period				**7,805**
Reportable segment Asset	**167,256**	**2,113,600**	**95,132**	**2,375,988**
Reportable segment Liabilities	**128,416**	**423,430**	**14,235**	**566,081**

2. REVENUE AND SEGMENT INFORMATION (CON'T)

Business segment (CON'T)

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**

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	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Hong Kong	**559,928**	456,909
The PRC	**510,852**	572,725
Consolidated	**1,070,780**	1,029,634

3. Other income

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Interest income	**17,560**	11,575
VAT refund	**20,234**	13,090
Government subsidies and grants	**1,736**	12,850
Others	**147**	1,891
	39,677	39,406

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**627,341**	692,091
Depreciation	**14,906**	16,007
Amortisation of other intangible assets	**8,293**	8,088

5. TAXATION

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Current tax:		
Hong Kong	**7,624**	6,871
PRC Enterprise Income Tax	**-**	(217)
Deferred taxation	**(1,932)**	(1,775)
	5,692	4,879

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	
	2012	2011
	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)	**10,475**	41,712
Interest on redeemable convertible preferred shares	**-**	7,566
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	**-**	(5)
Earnings for the purpose of diluted earnings/ (loss) per share	**10,475**	49, 273
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)	**10,475**	41,712
Interest on redeemable convertible preferred shares	**-**	7,566
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	**-**	(5)
Earnings for the purpose of diluted earnings/ (loss) per share	**10,475**	49,273
Number of shares (in thousand)		
Weighted average number of ordinary shares for the purpose of basic earnings/ (loss) per share	**4,207,440**	3,791,567
Effect of dilutive potential ordinary shares		
–share options	**14,527**	17,614
–redeemable convertible preferred shares	**-**	1,186,124
Weighted average number or ordinary shares for the purpose of diluted earnings/ (loss) per share	**4,221,967**	4,995,305

7. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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:

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Trade receivables		
0-30 days	**82,925**	98,314
31-60 days	**33,852**	10,763
61-90 days	**7,657**	9,614
91-120 days	**23,860**	9,123
Over 120 days	**103,606**	75,080
	251,900	202,894

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due from fellow subsidiaries		
0-30 days	**72,539**	93,030
31-60 days	**126**	4,337
61-90 days	**3,796**	-
91-120 days	**2,187**	3,112
Over 120 days	**10,461**	-
	89,109	100,479

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due from immediate holding company		
0-30 days	**38,929**	33,896
31-60 days	**17,158**	-
	56,087	33,896

TRADE RECEIVABLES (CON'T)

	30.6.2012	31.12.2011
	HK$'000	HK$'000
	(unaudited)	(audited)
Amounts due from ultimate holding company		
0-30 days	**46**	816
31-60 days	**747**	1,501
61-90 days	**894**	125
91-120 days	**3,906**	16,816
Over 120 days	**18,551**	-
	24,144	19,258

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:

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Trade and bills payables		
0-30 days	**129,375**	104,315
31-60 days	**5,396**	14,540
61-90 days	**3,961**	9,905
Over 90 days	**26,804**	32,399
	165,536	161,159

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Amounts due to fellow subsidiaries		
0-30 days	**7,272**	12,913
31-60 days	**-**	246
61-90 days	**-**	1,440
Over 90 days	**7,099**	5,147
	14,371	19,746

TRADE PAYABLES (CON'T)

	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
Amounts due to ultimate holding company		
0-30 days	**1,328**	4,787
31-60 days	**-**	-
61-90 days	**105**	-
Over 90 days	**240**	-
	1,673	4,787

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 31 October 2011, the Company further entered into a supplemental deed with holder of Preferred Shares (the "New Supplemental Deed"). Pursuant to the New Supplemental Deed, the terms of the Preferred Shares for the remaining Preferred Shares, including Scrip Dividend but excluding those Preferred Shares being converted and redeemed are amended as follows:(a) The maturity date of the Preferred Shares shall be extended for a further period of two years from 8 December 2011 ("Extended Maturity Period");(b) The rate of interest during the Extended Maturity Period will be increased from 6% to 9% per annum; and (c) The interest during Extended Maturity Period shall only be paid by cash. Details of the modification of the terms of Preferred Shares are set out in the Company's circular dated 14 November 2011. The modification of the terms was considered to be a replacement of Preferred Shares, including Scrip Dividend with new Preferred Shares ("New Preferred Shares") at the date of maturity. The New Preferred Shares contains two components, liability and embedded conversion option.

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

REDEEMABLE CONVERTIBLE PREFERRED SHARES

	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
Liability component	**63,519**	63,519
Conversion option derivative	**9,600**	9,600
Fair value change in conversion option derivative	**5,400**	-
	78,519	73,119

11. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*
Ordinary shares of HK$0.002 each		
Authorised:		
At 1 January 2012	10,000,000	20,000
Issued:		
At 1 January 2012	4,207,440	8,415
At 30 June 2012	4,207,440	8,415

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	
	Note	**30.June.2012** ***HK$'000*** ***(unaudited)***	30.June.2011 *HK$'000* *(unaudited)*
Supply Transactions	(i)	**212,802**	196,102
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	**56,437**	144,654
(2) The related commission amount		**304**	1,193
Purchase Transactions	(iii)	**6,281**	19,104
Common Services Transactions	(iv)	**10,385**	5,476
Processing Transactions	(v)	**15,482**	58,057
Software Outsourcing Services	(vi)	**-**	41,987

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) Microsoft holds the preference shares accounted for only 6.59% of the expanded share capital, to provide software outsourcing services to Microsoft no longer constitute connected transactions.

Financial review

The Group's interim results show the following trends:

(1) Satisfactory growth of revenue from operations

During the reporting period, the Group recorded a turnover of HK$1,070,780,000 (2011: HK$1,029,634,000) from operations, representing an increase of 4% as compared with the corresponding period of last year. IT services business recorded a turnover of HK$510,852,000 (2011: HK$572,725,000), representing a decrease of 10.8% as compared with the corresponding period of last year. IT services business segment results appear loss of approximately HK$23,368,000. The total revenue from IT components trading segments amounted to HK$559,928,000 (2011: HK$456,909,000), representing an increase of 22.55%.

(2) Decrease in profit from operations

During the reporting period, gross profit was HK$278,696,000 (2011: HK$253,922,000), representing an increase of 9.76%, with gross margin of 26.03% (2011: 24.66%). Net profit attributable to shareholders was HK$10,475,000 (2011: HK$41,712,000). Earnings per share and diluted earnings per share from continuing operations were HK$0.25cents (2011: 1.1cents) and HK$0.25 cents (2011: HK$0.99 cents) respectively.

And Net margin from operations significantly decreased by 74.89% to HK$10,475,000 (2011: HK$41,712,000) as compared with the corresponding period of last year. The decrease was mainly attributable to: 1. During the reporting period ,Due to fierce competition in the market and the overall economic situation is poor, resulting in gross profit of the Group's IT services business grew only 9.58% about HK$20,084,000; and 2. the increase in overall sales and administrative expenses of 28.64% to HK$290,932,000 (2011: 226,164,000) 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;.

(3) Sufficient working capital

As at 30 June 2012, shareholders' funds amounted to approximately HK$1,805, 954,000 (31 December 2011: HK$1,834,635,000). Current assets were approximately HK$1,923,250,000, including cash and bank balances of HK$1,187,329,000, 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$474,916,000, mainly comprised trade payable, amount due to fellow subsidiaries, other payables and accrued expenses, and tax payable. The Group's current assets were 4.05 times (31 December 2011: 4.77 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2012.

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

Employee information

At 30 June 2012, the Group had 3,610 employees. Total employee remuneration, including the Directors' fees and contributions to the Mandatory Provident Funds, amounted to approximately HK$203,199,000 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 2012, none of the Group’s assets was pledged (31 December 2011: 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 2012, the Group had no material contingent liabilities (31 December 2011: nil).

BUSINESS REVIEW

In the first half of 2012, although the economy was still stagnant, the software and service business remained strong. The demand of IT services from major enterprises in China increased, in particular the state-owned enterprises. Pursuant to its specialized technology development strategy, the Group has been developing itself into a SaaS cloud computing service provider. By leveraging on its advantages in the industry, innovative technology products of cloud computing were introduced to increase the market share. More investment was made in product development to optimize the product portfolio and to enhance the core competitiveness of the Group so as to consolidate its position in the niche market of cloud computing.

1. IT services business

The IT services business of the Group covers various sectors, including corporate governance, telecommunication, pharmaceuticals, infrastructure, taxation, finance, coal, manufacturing and public utilities etc. Mainly engaged in software and related services as well as embedded systems, the Company offers integrated IT services ranging from applications, IT consultation, system integration, operation and maintenance, outsourcing and intelligent terminal products.

IT services business mainly includes:

(1) Software and related services

In 2012, the Company implemented its strategy of professionalism at full steam. It enhanced the research and application of various technologies, including cloud computing for corporates, XBRL and internal control system. The Group also strengthened the cooperation with academic institutions in technology research to enhance the competitiveness of its products. In regard to product development, it adopted a model to improve the quality of products through template development, cooperation and independent research and development as well as system integration. By delegating more responsibilities to product managers and refining the incentive system and management by objective, the Group improved the quality of its products by improving its operation structure and product design. CMMI5 was generally applied in the quality control of the entire process of software development to enhance the professionalism of the Group.

In the first half of the financial year, the Group had the following major developments:

A. Improvement in corporate governance and product and solution development.
Corporate governance and is crucial to the operation of the Group and has direct and significant effect on its market position. In the financial year of 2012, the Group continued to focus on high-end customers and further improved the product competitiveness and maintained its position in the high-end market of corporate governance products. The corporate governance products and solutions of the Group had two major developments: Corporate governance products and solutions had two major changes: (i) account management was strengthened by integrating with business management; and (ii) the application of new technologies such as cloud computing, mobile applications and e-commerce.

The Company has completed the research and development of various new products, including software and solutions in respect of manufacturing and internal risk controls, and established a comprehensive management software for various enterprises. It has officially launched the Inspur cloud computing for corporate customers and released a supporting platform for CSP cloud computing and a cloud computing platform for CEPP e-procurement. The Company launched its GS6.0 management software package, which includes new products and upgrade versions of GSP, GS, eHR and BI series and integrated new technologies such as cloud computing and mobile applications, reflecting the Group's philosophy of "integration, versatility, sophistication and intelligence". The Company further upgraded and improved its product line of financial software, such as customer relationship management (CRM), testing and installation, risk management, payment and settlement system. In addition, the Company improved its products by making them more user friendly through standardization as well as improvement in process and culture of the product development. Through improvement in the performance and application of our products, the Group has gained valuable experience for the research and development of new products.

B. Successful acquisition of major customers to attract more customers.
The Company focused on the acquisition of major customers so as to attract more customers and to generate more revenue. The Company leveraged its high-end position in the industry to increase its investment in establishing major customers in selected target industries and major areas. As such, the Company has established a group of major customers with comprehensive applications, high values and characteristic businesses. The Company focused on formulating on-site solutions for its customers and establishing showrooms, promoting the integrity and integration of its solutions. The

Company also offered supporting policies and relevant resources in order to maintain and interact with its major customers.

C. Adoption of comprehensive marketing system.
The marketing department developed different promotion kits and strategies for various products and solutions targeting at particular customers with the support of other departments. The market was divided into different regional markets for which various marketing activities and seminars were organized to attract local major customers. The Group successfully consolidated its position in the high-end markets in major industries and regions. The Company significantly expanded its customer base through special promotion events such as XBRL. Sales of the OSS products of the Company, in particular integrated resource software, remained strong. The Group cooperated with domestic telecommunication operators, including China Mobile and China Unicom, in marketing in China. With the aid from business partners, the products of the Company were applied in 30 overseas countries.

In the second half of the year, the Company will further develop its cloud computing business and introduce SaaS products and services. The Company will also explore market opportunities in IT planning and integrated application for business cloud computing technology. The Company will continue to participate in the formulation of national, local and industrial standards. The Company will capitalize the opportunities in cloud computing market and develop itself into a leading company in the market by technology innovation with its internal resources.

(2) Embedded systems and related services

In the commercial tax-collection machine market, the State Administration of Taxation has changed its tax control method from conventional paper records to online assessment and collection. It has also launched the trial reform on value-added tax and no tender was invited in any province in 2012. Inspur won the tenders in 16 provinces and municipals and ranked first for nine consecutive years. However, as online billing has been increasingly common, the traditional commercial tax collection machine market as well as the sales of the Company continued to decline. In respect of the automatic rate-paying machine ("ARM") market, the Company further optimized and upgraded the functions of ARM. The ARM was used by the national and regional authorities in 30 provinces and 15 prefectures. In future, we will further optimize the product mix and functions of our ARM products and reduce our costs to cope with price competition from our competitors.

In view of the adverse changes in traditional tax collection market, the Group has stepped up its researches on new technologies for online invoicing, integrate advantages in respect of online computing, mobile development, data encryption and telecommunication control of Inspur, consider the requirements for cloud computing and internet of things and push forward the development of mobile online invoicing application system. By establishing cooperation relationship with tax authorities in different regions and operators, the Group targets to expand its market share in online invoice market.

In respect of the automatic financial terminal market, the Company continued to develop new products in addition to expanding the traditional automatic terminal market. The Company launched integrated solutions for channel services, providing customers with new and comprehensive solutions for various cooperative channels which cover different subdivisions of bank outlets, networks of off-bank service and various banking enterprises. At present, the development of banking and medical automatic terminals, automatic card-issuing machines and automatic ticketing machines has completed and were entered into mass production, while automatic front desk machines and automatic receipt terminals (自助回單機) have put into trial run. Banking and medical products have achieved successful progress in dozens of cases. The batch promotion of automatic ticketing machine in Construction Bank, Beijing Branch was successful, and the trial test of the new edition of automatic card-issuing machines in the head office of Bank of China has passed. The Company aims to further enhance its competitiveness and profitability in the financial market through exploration of existing customers and launching of innovative products.

(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, embedded system development, and quality assurance and 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 the first half of 2012, the Company maintained good relations and cooperation with customers including NTT DATA, FITEC and KNT, and enhanced the strategic cooperation with domestic telecommunication operators such as China Mobile and China Unicom. In addition, the Company strengthened its investment in local outsourcing market of United States and recruited more on-site staffs in the headquarter of Microsoft in Seattle. The outsourcing business of the Company increased by over 40% as compared to the corresponding period last year, which mainly attributable to the growth of Microsoft and domestic businesses.

2. IT components trading

During the reporting period, IT component trading business recorded turnover of approximately HK$559,928,000 accounting for 52.29% of the total turnover and contributing to 202% of segment results. The Company will maintain the stable development of IT components business through enlarging its customer base and sales channels.

Business planning

In the second half of the year, through pursuing active market expansion strategies, the Company will further expand into regional and industrial market and refine the synergy and coordination mechanism of products, regions and industry. In addition, in the view of the development of its subsidiary, Inspur Cloud Computing Industry Investment Co., Ltd, the Company will increase the investment in the market and establish more sales channels , and strategically expand in provincial cities and major cities by stationing more employees in the cities. The Company will invest more resources in research and development, develop new products based on the requirements cloud technology, and strengthen the overall capabilities of solutions to innovate its business model and services model. The Company will also enhance the capability and efficiency of its services and actively seek strategic opportunities to enter into SMEs markets. By enhancing its external cooperation, merger and acquisition, the Company will proactively face various challenges and implement its plans to maintain the competitiveness of its cloud computing technology.

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

As at 30 June 2012, 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$*
Wang Xingshan	Beneficial owner	Share option (note)	5,000,000	0.682
Chen Dongfeng	Beneficial owner	Share option (note)	4,000,000	0.682
Dong Hailong	Beneficial owner	Share option (note)	2,000,000	0.682
Wong Lit Chor, Alexis	Beneficial owner	Share option (note)	200,000	0.682
Sun Chengtong	Beneficial owner	Share option (note)	4,000,000	0.682

Note: 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 2012, 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 2012, 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	32.19%
Inspur Electronics (HK) Limited	Beneficial owner	1,354,390,000	32.19%
WANG Yukun	Beneficial owner	253,630,000	6.02%

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 2012, 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	72,859,049	297,052,141	100%

Note: As at latest practicable date, the above 72,859,049 preferred shares convertible into 297,052,141 underlying Shares represented approximately 6.59% 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 2012, 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 2012, 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 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. Zhang Ti Qin, Mr. Wong Lit Chor, Alexis and Ms. Dai Ruimin. 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 2012.

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 2012

By Order of the Board

Inspur International Limited

Wang Xingshan

Chairman

Hong Kong, 29 August 2012

As at the date of this announcement, the Board comprised Mr. Wang Xingshan, Mr. Chen Dongfeng, Mr Sun Chengtong and Mr. Dong Hailong as executive Directors and Mr. Zhang Ti Qin, Mr. Wong Lit Chor, Alexis and Ms. Dai Ruimin as independent non-executive Directors.