INSPUR INTERNATIONAL LIMITED

浪潮國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

The board of Directors (the "**Board**") of Inspur International Limited (the "**Company**") hereby announces the audited consolidated results (the "**Audited Consolidated Results**") of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2012 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Revenue	2&3	2,401,025	2,221,582
Cost of sales		(1,893,855)	(1,693,488)
Gross profit		507,170	528,094
Other income	4	90,929	96,829
Other gains and losses	4	(20,947)	(8,804)
Administrative and other operating expenses		(313,402)	(275,986)
Selling and distribution cost		(275,882)	(241,707)
Finance costs		(6,101)	(15,029)
Amortisation of other intangible assets		(14,505)	(16,325)
Impairment loss on goodwill		(63,915)	-
Share of loss of a jointly controlled entity		(237)	-
Share of profit of an associate		13,627	705
(Loss) profit before taxation		(83,263)	67,777
Taxation	6	(16,106)	(19,617)
(Loss) profit for the year		(99,369)	48,160
(Loss) profit for the year attributable to:			
Owners of the Company		(93,319)	50,408
Non-controlling interests		(6,050)	(2,248)
		(99,369)	48,160
(Loss) earnings per share	7		
- Basic		(HK2.22 cents)	HK1.31 cents
- Diluted		(HK2.22 cents)	HK1.30 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
(Loss) profit for the year	(99,369)	48,160
Other comprehensive income		
Exchange differences arising on translation	10,585	64,534
Total comprehensive (expense) income for the year	(88,784)	112,694
Total comprehensive (expense) income attributable to:		
Owners of the Company	(82,743)	114,853
Non-controlling interests	(6,041)	(2,159)
	(88,784)	112,694

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		121,349	90,778
Prepaid lease payments	9	38,146	-
Goodwill		14,188	77,649
Other intangible assets		21,122	39,493
Available-for-sale investments		22,693	22,566
Interest in an associate		128,489	114,219
Interest in a jointly controlled entity		122,629	122,175
		468,616	466,880
Current assets			
Inventories		148,309	97,083
Trade and bills receivables	10	250,563	202,894
Prepaid lease payments	9	874	-
Prepayments, deposits and other receivables		64,223	66,368
Amounts due from customers for contract work		39,761	50,237
Amounts due from fellow subsidiaries		150,217	100,479
Amount due from immediate holding company		-	33,896
Amount due from ultimate holding company		11,965	19,258
Amount due from non-controlling interest of a subsidiary		-	20
Taxation recoverable		1,241	1,980
Pledged bank deposits	12	14,786	-
Bank balances and cash	12	1,184,761	1,255,855
		1,866,700	1,828,070
Assets classified as held for sale		-	60,103
		1,866,700	1,888,173
Current liabilities			
Derivative financial instruments		30,857	9,600
Trade and bills payables	11	192,276	161,159
Other payables, deposits received and accrued expenses		174,896	139,591
Amounts due to customers for contract work		85,443	37,253
Amounts due to fellow subsidiaries		26,885	19,746
Amount due to ultimate holding company		3,221	4,787
Amount due to non-controlling interest of a subsidiary		-	3,177
Deferred income - government grant		3,903	3,271
Redeemable convertible preferred shares	13	64,961	-
Taxation payable		11,717	16,869
		594,159	395,453
Liabilities associated with assets classified as held for sale		-	31,663
		594,159	427,116
Net current assets		1,272,541	1,461,057
Total assets less current liabilities		1,741,157	1,927,937

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012 (CON'T)

		2012	2011
		HK$'000	HK$'000
Non-current liabilities			
Deferred income - government grant		16,735	2,663
Redeemable convertible preferred shares	13	-	63,519
Deferred tax liabilities		19,140	22,668
		35,875	88,850
		1,705,282	1,839,087
Capital and reserves			
Share capital		8,455	8,415
Reserves		1,693,749	1,826,220
Equity attributable to owners of the Company		1,702,204	1,834,635
Non-controlling interests		3,078	4,452
Total equity		1,705,282	1,839,087

NOTES

1. Basis for preparation

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

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset
Amendments to HKFRS 7	Financial instruments: Disclosures - Transfers of financial assets.

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 - 2011 cycle[1]
Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

2. Revenue

Revenue represents revenue arising on sales of information technology ("IT") components, software development contracts and software outsourcing contracts. An analysis of the Group's revenue for the year is as follows:

	2012 HK$'000	2011 HK$'000
Sales of IT components	1,239,465	963,443
Revenue from software development contracts		
- Sales of IT peripherals and software	480,953	675,803
- Software development	492,152	457,859
Revenue from software outsourcing contracts	188,455	124,477
	2,401,025	2,221,582

3. Segment Information

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

For the year ended 31 December 2012

		IT services		
	Trading of IT components HK$'000	Software development and solution HK$'000	Software outsourcing HK$'000	Consolidated HK$'000
Segment revenue	1,239,465	973,105	188,455	2,401,025
Segment profit (loss)	75,487	(169,599)	4,477	(89,635)
Other income, gains and losses				8,367
Share of profit of an associate				13,627
Share of loss of a jointly controlled entity				(237)
Central administration costs				(9,284)
Interest expenses				(6,101)
Loss before taxation				(83,263)

Segment Information (Con't)

For the year ended 31 December 2011

	Trading of IT components HK$'000	IT services: Software development and solution HK$'000	IT services: Software outsourcing HK$'000	Consolidated HK$'000
Segment revenue	963,443	1,133,662	124,477	2,221,582
Segment profit (loss)	73,994	(2,804)	3,973	75,163
Other income, gains and losses				13,346
Share of profit of an associate				705
Central administration costs				(6,408)
Interest expenses				(15,029)
Profit before taxation				67,777

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

Segment assets and liabilities

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

At 31 December 2012

	Trading of IT components HK$'000	IT services: Software development and solution HK$'000	IT services: Software outsourcing HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	158,536	562,717	42,300	763,553
Property, plant and equipment				64,623
Interest in an associate				128,489
Interest in a jointly controlled entity				122,629
Bank balances and cash				1,184,761
Pledged bank deposits				14,786
Prepaid lease payments				39,020
Other unallocated assets				17,455
Consolidated total assets				2,335,316
LIABILITIES				
Segment liabilities	39,014	430,293	11,715	481,022
Taxation payable				11,717
Redeemable convertible preferred shares				64,961
Derivative financial instrument				30,857
Deferred tax liabilities				19,140
Other unallocated liabilities				22,337
Consolidated total liabilities				630,034

Segment Information (Con't)

Segment assets and liabilities - continued

At 31 December 2011

	IT services			
	Trading of IT components	Software development and solution	Software outsourcing	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS				
Segment assets	108,761	679,978	47,118	835,857
Property, plant and equipment				21,339
Interest in an associate				114,219
Interest in a jointly controlled entity				122,175
Bank balances and cash				1,255,855
Other unallocated assets				5,608
Consolidated total assets				2,355,053
LIABILITIES				
Segment liabilities	62,227	324,488	4,227	390,942
Taxation payable				16,869
Redeemable convertible preferred shares				63,519
Derivative financial instruments				9,600
Deferred tax liabilities				22,668
Other unallocated liabilities				12,368
Consolidated total liabilities				515,966

Other segment information

For the year ended 31 December 2012

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

		IT services				
	Trading of IT components	Software development and solution	Software outsourcing	Total	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Additions to property, plant and equipment	16	13,776	915	14,707	44,343	59,050
Depreciation of property, plant and equipment	169	25,681	1,607	27,457	424	27,881
(Reversal) write-down of inventories	(287)	1,396	-	1,109	-	1,109
Amortisation of other intangible assets	-	10,799	3,706	14,505	-	14,505
Impairment loss on goodwill	-	63,915	-	63,915	-	63,915
Impairment loss on amounts due from customers for contract work	-	3,788	-	3,788	-	3,788
Allowance for bad and doubtful debts	-	2,697	737	3,434	-	3,434

Segment Information (Con't)

Other segment information - continued

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

	HK$'000
Interest in an associate	128,489
Share of profit of an associate	13,627
Interest in a jointly controlled entity	122,629
Share of loss of a jointly controlled entity	(237)
Interest expenses	(6,101)

For the year ended 31 December 2011

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

		IT services				
	Trading of IT components	Software development and solution	Software outsourcing	Total	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Additions to property, plant and equipment	8	19,357	999	20,364	-	20,364
Depreciation of property, plant and equipment	172	28,973	2,978	32,123	427	32,550
Write-down of inventories	6,007	-	-	6,007	-	6,007
Amortisation of other intangible assets	-	12,619	3,706	16,325	-	16,325
Impairment loss on amounts due from customers for contract work	-	4,577	-	4,577	-	4,577
Allowance for bad and doubtful debts	104	1,219	-	1,323	-	1,323

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

	HK$'000
Interest in an associate	114,219
Share of profits of an associate	705
Interest in a jointly controlled entity	122,175
Interest expenses	(15,029)

Segment Information (Con't)

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	1,239,465	963,443	20,298	20,888
The PRC (excluding Hong Kong), (country of domicile)	1,017,915	1,163,347	425,378	423,178
Others	143,645	94,792	247	248
	2,401,025	2,221,582	445,923	444,314

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	2012	2011
	HK$'000	HK$'000
Other income:		
Interest income	31,731	24,043
Value added tax refund (Note a)	52,195	52,045
Government subsidies and grants (Note b)	5,163	19,118
Dividend income from available-for-sale investments	1,840	1,623
	90,929	96,829
Other gains and losses:		
Net foreign exchange (loss) gain	(1,154)	208
Net (loss) gain and written off on disposal of property, plant and equipment	(144)	44
Loss arising from modification of the terms of redeemable convertible preferred shares	-	(9,600)
Fair value change in conversion option derivatives embedded in redeemable convertible preferred shares	(21,257)	-
Loss on disposal of a subsidiary	(719)	-
Gain on disposal of other intangible asset	1,696	-
Others	631	544
	(20,947)	(8,804)

Notes:

(a) Inspur (Shandong) Electronic Information Company Limited ("Inspur Shandong Electronic"), Inspur Communication Information System Limited ("Inspur Communication"), Shandong Inspur Business System Company Limited ("Inspur

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

(b) For the year ended 31 December 2012, the amount of approximately HK$3,962,000 (2011: HK$12,314,000) represent the subsidies received from the PRC Government for the purpose of encouraging the development of group entities engaged in new and high technology sector. The subsidies received are in substance a kind of immediate financial support to the group's entities with no future related costs and recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to the subsidies granted to the Group.

For the year ended 31 December 2012, the amount of approximately HK$1,201,000 (2011: HK$6,804,000) represent the grants from the Government for funding of some feasibility studies which benefits the society as a whole. The grants received are recognised as income when the related feasibility studies has been completed and the approval of the relevant Government authority has been obtained.

5. (LOSS) PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Allowance for bad and doubtful debts	3,434	1,323
Reversal of allowance for bad and doubtful debt	-	(1,281)
Impairment loss on amounts due from customers for contract work	3,788	4,577
Research and development costs	39,405	29,406
Auditor's remuneration	2,000	2,000
Cost of inventories recognised as expenses in cost of sale (including write-down of inventories of HK$1,109,000 (2011: HK$6,007,000))	1,563,580	1,451,033
Depreciation for property, plant and equipment	27,881	32,550
Amortisation of prepaid lease payments	297	-
Less: Prepaid lease payments capitalised into construction in progress	(297)	-
	-	-
Directors' remuneration	4,401	5,077
Other staff costs		
Salaries and other benefits	450,135	344,277
Retirement benefits scheme contributions	54,011	38,957
Share based payments	1,733	8,704
	510,280	397,015
Interest expense on redeemable convertible preferred shares wholly repayable within five years	6,101	15,029
Operating lease rentals in respect of office premises and staff quarters	19,160	18,333

6. TAXATION

	2012 HK$'000	2011 HK$'000
Current tax:		
Hong Kong Profits Tax	12,002	11,557
PRC Enterprise Income Tax	7,074	9,035
(Over)underprovision in prior years:		
Hong Kong Profits Tax	(85)	(70)
PRC Enterprise Income Tax	659	1,428
Deferred taxation	(3,544)	(2,333)
	16,106	19,617

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

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

The statutory tax rate for PRC Enterprise Income Tax of 25% is applied to the Group's PRC subsidiaries except for Inspur Communication, Inspur Business System and Inspur Genersoft. Inspur Communication, Inspur Business System and Inspur Genersoft are recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15%. The entitlement of this tax benefit is subject to renewal by respective tax bureau in PRC every three years. The latest approval for all of the PRC subsidiaries enjoying this tax benefit were obtained for the year ended 31 December 2011. Furthermore, Inspur Genersoft can enjoy additional 5% reduction in tax rate starting from the fiscal year ended 31 December 2005 because it is recognised as "State recognised software enterprise" (國家規則布局內重點軟件企業) since 2005. The entitlement of this tax benefit is subject to annual renewal by respective tax bureau in the PRC and the formal approval for the year ended 31 December 2012 was subsequently obtained in March 2013.

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

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

6. TAXATION (Con't)

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

	2012 HK$'000	2011 HK$'000
(Loss) profit before taxation	(83,263)	67,777
Tax at the prevailing profits tax rate of 25%	(20,816)	16,944
Tax effect of share of profit of an associate	(3,407)	(176)
Tax effect of share of loss of a jointly controlled entity	59	-
Tax effect of expenses not deductible for tax purpose	29,102	13,859
Tax effect of income not taxable for tax purpose	(1,081)	(19,180)
Tax effect of tax losses not recognised	19,795	11,176
Effect of tax relief granted to PRC subsidiaries	(1,673)	(2,407)
Effect of different tax rates of group entities operating in Hong Kong	(5,913)	(5,953)
Underprovision in respect of previous years	574	1,358
Deferred tax on withholding tax arising from PRC subsidiaries	12	1,471
Other	(546)	2,525
Taxation for the year	16,106	19,617

At the end of the reporting period, the Group has unused tax losses of HK$133,246,000 (2011: HK$54,065,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses at the end of the reporting period, due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$78,381,000, HK$43,523,000 and HK$1,827,000 (2011: nil, HK$43,523,000 and HK$1,827,000) that will expire in 2017, 2016 and 2015 respectively. Other tax losses may be carried forward indefinitely.

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the (loss) profit for the year attributable to owners of the Company and on the number of shares as follows:

	2012 HK$'000	2011 HK$'000
(Loss) Earnings for the purpose of basic earnings per share ((loss) profit for the year attributable to owners of the Company)	(93,319)	50,408
Interest on redeemable convertible preferred shares	-	-
(Loss) Earnings for the purpose of diluted (loss) earnings per share	(93,319)	50,408

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,207,659	3,861,069
Effect of dilutive potential ordinary shares:		
- share options	-	16,720
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,207,659	3,877,789

The incremental shares from assumed exercise of share options and conversion of the Company's redeemable convertible preferred shares are excluded in calculation of the diluted loss per share for the year ended 31 December 2012 since their exercise or conversion would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31 December 2011 did not assume the conversion of the Company's redeemable convertible preferred shares since their exercise would result in an increase in earnings per share.

8. DIVIDEND

	2012 HK$'000	2011 HK$'000
Dividends recognised as distribution during the year:		
2011 final dividend - HK$0.012 (2011: 2010 final dividend - HK$0.01) per share	50,489	37,916

Subsequent to the end of the reporting period, a final dividend of HK$0.006 in respect of the year ended 31 December 2012 (2011: final dividend of HK$0.012 in respect of the year ended 31 December 2011) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. PREPAID LEASE PAYMENTS

	2012	2011
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current asset	874	-
Non-current asset	38,146	-
	39,020	-

The Group's prepaid lease payments comprise a leasehold land in the PRC under medium-term lease. As at 31 December 2012, the Group was in the process of obtaining the relevant land use right certificate for the leasehold land. The land use right certificate was subsequently obtained on 24 January 2013 without incurring additional significant costs.

10. TRADE AND BILLS RECEIVABLES

The Group allows a credit period of 30 to 210 days (2011: 30 to 210 days) to its customers. The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates. The analysis includes those classified as part of a disposal group held for sale amounting to HK$3,507,000 as at 31 December 2011.

	2012	2011
	HK$'000	HK$'000
0 to 30 days	133,960	101,622
31 to 60 days	18,426	10,763
61 to 90 days	4,986	9,736
91 to 120 days	5,638	9,147
121 to 180 days	15,318	8,750
Over 180 days	72,235	66,383
	250,563	206,401

11. TRADE AND BILLS PAYABLES

The average credit period taken for trade purchases is 30 to 120 days (2011: 30 to 120 days). The following is an aged analysis of trade and bills payables for the purchase of goods and services received presented based on the invoice date at the end of the reporting period. The analysis includes those classified as part of a disposal group held for sale amounting to HK$16,471,000 as at 31 December 2011.

	2012	2011
	HK$'000	HK$'000
Trade and bills payables		
0 - 30 days	145,579	110,842
31 - 60 days	8,169	16,383
61 - 90 days	7,336	11,305
Over 90 days	31,192	39,100
	192,276	177,630

12. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carried interest at market rates which range from 0.01% to 3.25% (2011: 0.01% to 3.50%) per annum. At 31 December 2012, the bank balances and cash of approximately HK$1,103,127,000 (2011: HK$1,104,000,000) are denominated in RMB which is not freely convertible into other currencies.

At 31 December 2012, bank and cash balances of approximately HK$71,488,000, HK$12,000, HK$1,624,000 and nil (2011: HK$130,300,000, HK$13,470,000, HK$660,000 and HK$163,000) are denominated in US$, JPY, HK$ and Euro respectively, which are not denominated in the functional currency of respective group entities.

Pledged bank deposits represent deposits pledged to banks to secure bank acceptance bills and general banking facilities granted to the Group and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 2.85% to 3.25% per annum.

At 31 December 2012, the pledged bank deposits of approximately HK$3,039,000 (2011: nil) are denominated in RMB which is not freely convertible into other currencies. The pledged bank deposits of approximately HK$5,217,000 (2011: nil) is denominated in US$, which is not denominated in the functional currency of respective group entities.

13. REDEEMABLE CONVERTIBLE PREFERRED SHARES

The movement of the liability component and conversion option derivative of the redeemable convertible preferred shares ("preferred share") for the year is set out below:

	Liability component HK$'000	Conversion option derivatives HK$'000
At 1 January 2011	-	-
Replacement of Preferred Shares	63,519	9,600
At 31 December 2011	63,519	9,600
Interest charge	6,101	-
Coupon interest paid for the year	(4,659)	-
Loss arising on changes of fair value	-	21,257
At 31 December 2012	64,961	30,857

The weighted average effective interest rate of the liability component of the preferred shares is 9% (2011: 9%).

FINANCIAL REVIEW

During the year ended 31 December 2012, the Group recorded a turnover of HK$2,401,025,000 (2011: HK$2,221,582,000) from its businesses, representing an increase of approximately 8.08% as compared with last year.

(1) Revenue

During the year, total revenue of the Group maintained a mild increment. The Group recorded a revenue of HK$2,401,025,000 (2011: HK$2,221,582,000) representing an increase of 8.08% as compared with last year. The increase was mainly attributable to increase in sales of IT components, the revenue from sales of IT components was HK$1,239,645,000 (2011: HK$963,443,000), but the revenue of IT services was recorded a decrease of 7.68% as compared with last year.

During the year, the revenue of IT services was HK$1,161,560,000 (2011: HK$1,258,139,000). The revenue of software development and solution in IT service for the year was HK$973,105,000 (2011: HK$1,133,662,000), representing a decrease of 14.16% as compared with last year； On the other hand, the software outsourcing business in IT service was HK$188,455,000 (2011: HK$124,477,000), representing an increase of 51.40% as compared with last year. The revenue of sales of IT peripherals and software was HK$480,953,000 (2011: HK$675,803,000), representing a decrease of 28.8% as compared with last year; but the revenue of software development was HK$492,152,000 (2011: HK$457,859,000), representing an increase of 7.5% as compared with last year.

(2) Gross profit

Gross profit of the Group was HK$507,170,000 for the year (2011: HK$528,094,000), representing a decrease of 3.96% as compared with last year. The Group's consolidated gross profit margin for the year decreased by 2.65% to 21.12% (2011: 23.77%). The year-to-year decrease in gross profit margin was mainly due to increase in the proportion of low-margin sales of IT components.

(3) Selling and distribution cost and administrative expenses

During the year, selling and distribution cost and administrative expenses amounted to HK$589,284,000 (2011: HK$517,693,000), representing an increase of 13.83% as compared with last year. The increase was mainly due to the increase in research and development ("R&D") costs and marketing expenses. In particular, the staff cost of the Group overall increased significantly which was mainly due to recruitment of more competent professionals in R&D and marketing aiming to strengthen the competitiveness of the Group.

(4) Other income and other gains and losses

During the year, the other income and other gains and losses decreased from HK$88,025,000 in year 2011 to HK$69,982,000 in current year which was mainly due to fair value charge in conversion option derivatives embedded in redeemable convertible preferred share was HK$21,257,000 (2011: loss arising from modification of the terms of redeemable convertible preferred share was HK$9,600,000) and a decrease of HK$13,955,000 in government subsidies and grants as compared with last year.

(5) Profit attributable to shareholders

Net loss attributable to shareholders for the year was approximately HK$93,319,000 (2011: Profit attributable to shareholders was HK$50,408,000), representing a decrease of 20.5% as compared with last year. The decrease was primarily due to:(a) a sharp increment of HK$71,591,000 in administrative and distribution costs which were mainly contribute by increase in research and development costs, marketing expenses and human resources expenses; (b) During the year, the impairment loss on goodwill amount to approximately HK$63,915,000 (2011: Nil). Our management recognised the full impairment on goodwill arising in the acquisition of Inspur Communication and Digital media business as a result of the much lower-than-expected profit contribution in current year and future economic benefits. The lower-than-expected profit contribution was due to the unexpected keen competition for technician and staff with advance technology knowledge which drive up their salaries drastically and change of suppliers' selection criteria by certain major customers, tender of certain orders were lost while the orders obtained were completed at a lower margin; (c) keen competition in the market leading to the falling down of gross profit by HK$20,924,000.

Basic and diluted loss per share were HK$2.22 cents (2011: earnings per share were HK$1.31 cents) and HK$2.22 cents (2011: earnings per share were HK$1.30 cents) respectively.

(6) Financial resources and liquidity

As at 31 December 2012, shareholder's equity of the Group amounted to HK$1,702,204,000 (31 December 2011: HK$1,834,635,000). Current assets amounted to HK$1,866,700,000, of which HK$1,184,761,000 was bank deposits and cash balance which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses amounted to HK$594,159,000. The Group's current assets were around 3.14 times over its current liabilities (31 December 2011: 4.42times).

As at 31 December 2012, the Group had no bank borrowings.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILIITES

As at 31 December 2012, the Group had no material contingent liabilities (31 December 2011: Nil).

CAPTIAL STRUCTURE

The Group finances its operations mainly from shareholder equity, internal generated funds in year 2012.

On 24 September 2009, the Company entered into a supplementary deed ("Supplementary Deed") with the holder of Preferred Shares, pursuant to which the Company and the holder of Preferred Shares have agreed that during the period from 1 October 2009 to 30 September 2011, a dividend at an annual rate of 6% shall be paid to the holders of Preferred Shares on a quarterly basis, (i) as to one third (1/3) thereof (i.e. representing 2% per annum) by cash; and (ii) as to two-thirds (2/3) thereof (i.e. representing 4% per annum) by the allotment of additional Preferred Shares ("Scrip Dividend") in such number to be calculated by dividing the amount of Scrip Dividend by the issue price of scrip share. The issue price of scrip share shall be the average closing price of the Ordinary Shares as shown on the daily quotation sheet of the Stock Exchange for the 10 consecutive trading days immediately prior to such dividend payment date. Each scrip share is convertible into one Ordinary Share. Save for the number of Ordinary Shares to be converted, the scrip shares rank para passu with Preferred Shares in all respects. Further details regarding the terms of the issue of scrip shares to the holders of Preferred Shares was set out in the circular of the Company dated 15 October 2009.

On 31 October 2011, 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 the maturity date of the preferred shares will extend for a further period of two years commencing on 8 December 2011, a dividend at an annual rate of 9% shall be paid to the holders of Preferred Shares on a quarterly basis by cash. Further details regarding the terms of the Preferred Shares was set out in the circular of the Company dated 15 November 2011.

On 1 November 2011, the Company have issued 415,873,000 ordinary shares pursuant to the conversion of 83,174,600 Preferred Shares. On 8 December 2011, the Company have redeemed 95,056,686 Preferred Shares pursuant to redemption notice.

On 31 December 2012, the principal amount of Preferred Shares was HKD 63,518,905.Micsrosoft is the holder of 72,859,049 Preferred Shares which can be converted into 297,052,141 ordinary shares.

ACQUISITIONS AND DISPOSAL

In December 2011, the Company, through Inspur Shandong, a wholly-owned subsidiary of the Company, set up a jointly controlled entity, Shandong Inspur Cloud Computing Industry Investment Co., Ltd ("山東浪潮雲海雲計算産業投資有限公司"), with another two related companies. The total contribution of the Group was RMB100,000,000 , representing 33.33% equity interest of the entity. All contribution has been made during the year ended 31 December 2011

In January 2012, the Group dispose of the total equity of Shandong Inspur E-Government software Limited to a related company at a consideration of RMB23,000,000.

EMPLOYEE INFORMATION

As at 31 December 2012, the Group had 3,785 employees (2011: 3,877).

Total employee remuneration, including directors' remuneration and mandatory provident fund contributions, amounted to approximately HK$510,280,000 (2011: approximately HK$397,015,000).

According to a comprehensive remuneration policy, which was formulated by the Group and reviewed by the management, employees are remunerated based on their performance and experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employees with reference to the Group's and the employee's performance. In addition, the Group provides mandatory provident fund, medical and insurance schemes for employees. The Group also offers continuous education and training programmes to the management and other employees to enhance their skills and knowledge.

On 10 December 2011, 60.10 million options granted under 2008 Share Option Scheme to our senior management and top R&D employers to encourage our staff create and share value without shareholders. By the end of year, 60,100,000 options were vested but not exercised.

CHARGES ON ASSETS

As at 31 December 2012, none of the Group's assets was pledged (31 December 2011: Nil).

BUSINESS REVIEW

In 2012, the global economy was in the recovery position and mainland China was faced with the appreciation of RMB and rising inflation. These factors affected the overall operation environment. 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 and control, telecommunication, 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 includes:

(1) Software and related services

In 2012, the Company implemented its strategy of professionalism at full steam. It enhanced the research and implementation of various technologies, such as cloud computing for corporate customers, XBRL and internal control system. The Group strengthened its cooperation with academic institutions in technology research to enhance the competitiveness of its produces.

In 2012, Inspur ERP stepping up its efforts in expanding into cloud computing, combined cloud computing with the supervision and control of the Group and achieved steady growth in core operations through the two-pronged strategy of
market development and research and development.

In terms of market development, the Company deepened its high-end advantages. The Company continued to focus on dominant sectors such as conglomerates, military, reserve, construction, shipping, pharmaceutical and coal, drove industry replication through strengthening precision marketing and case marketing. It signed agreements in succession with the top 100 enterprises in China such as China Aerospace Science and Technology, Aviation Industry Corporation of China, China South Industries (中國兵器裝備), Commercial Aircraft Corporation of China, China Grain Reserves, Dalian Shipbuilding and China Coal Technology &Engineering Group, also including leading domestic private enterprises in the industry such as Changlin Group and Wanda Group, to further reinforce its cooperation with large conglomerates. As a result, the market share in respect of medium and large customers increased further. Marketing was focused on case marketing and precision marketing. In 2012,the Company enhanced the promotion of successful cases to major customers and established 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. Dozens of large industry seminars were held in major areas such as Hangzhou, Zhengzhou, Beijing, Wuhan, Shanghai and Xi’an to support the sales to major industries and regions and vigorously consolidate its high-end market advantages.

In terms of product research and development, the Company focused on two “accelerated breakthroughs”: One was to accelerate the breakthrough in the clouding upgrade of products and provide “cloud + end” comprehensive private cloud solutions for conglomerates. The Company launched the Inspur management software flagship product GS6.0 package to fully support cloud computing, covering 2,375 function points under 99 product modules in 13 major areas of the supervision and control, which strongly supported the information technology upgrade of “Group supervision and control transferring from focusing on financial supervision and control to focusing on both financial and business supervision and control” and created new market opportunities such as Group ERP with “supply chain, production and cost” as the core, management accounting with “cost, budget” as the core and human resources management. In addition, the Company also successively launched the CSP,CEPP and CRM series of cloud product, strengthened new characteristics such as cloud products, mobile applications and e-commerce and actively launched services such as IT planning and application integration using cloud computing technology. Second was to accelerate the breakthrough in management software transformation and upgrade to further increase product competitiveness and high-end market position. Combining with the development trend of the Group's supervision and control model changing from financial supervision and control to strategic supervision and control, with management accounting as the starting point and with overall budget, strategic cost, decision making forecast and performance management as the main content, the Company successively completed the research and development of new products such as production and manufacturing, risk internal control, CRM, master data management and mobile applications, to provide more comprehensive solutions, management tools and important support for conglomerates which were in the transition stage during the cloud era and satisfy the needs of enterprises in sophisticated management. Meanwhile, the Company undertook such major projects as the state's 863 key project of "Research and Development and Application of an Intensive Operation and Management Platform for Discrete Conglomerates" and "Cloud Manufacturing Service Platform Key Technology" with a focus on integrating production, learning, research and application, which would provide important technological support for the manufacturing industry in China to transform from conventional production enterprises to service enterprises characterized by "technology+management+service".

In 2012, the Company faced great difficulties in the communication industry. On one hand, this was due to measures taken by telecommunication operators, which were its major customers, to control expenses. On the other hand, the standardization level of the Company's software products was yet to be raised. Together with high product costs, the competiveness of products was directly affected. In 2013, investment in the communication industry will continue to maintain growth. LTE is expected to be launched on a large scale. The launch of LTE will bring about a change in the OSS support model. The network management system will usher in a qualitative change and transformation. The business position of OSS will become increasingly important.

In the future, 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. Full-service competition among operators has imposed higher requirements on the support capability of OSS. Currently, it is developing towards new generation OSS. The technological and construction capabilities of OSS will be further improved.

(2) Embedded systems and related services

In terms of tax collection equipment, affected by the replacement of business tax with value-added tax and the mode of online billing, no provinces invited tenders. As a result, the Company's sales dropped drastically. As online billing has been increasingly common, the traditional commercial tax collection machine market continued to decline. It is expected the sales of tax collection equipment will continue to decline in the future.

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, with the implementation of the State Administration's direct procurement plan and popularization, automatic rate-paying machines will be understood and recognized by more and more tax payers and tax authorities. 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. For the national tax market, the Company is striving to basically cover the whole country. The coverage of the local tax market and the number of halls installed with the machine will also be increased significantly, thereby achieving large-scale promotion in the local tax market.

In 2012, 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 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 under the solution has completed and were entered into mass production, while the development of automatic front desk machines and low desk cash registers (低櫃現金出

納機) has been completed. As for the market, apart from continuing to develop the conventional automatic terminal market, the Company was active in developing the new product market. Banking and medical products were shortlisted by the head office of Bank of China and were sold to the Agricultural Bank and Construction Bank. At present, banking and medical products have achieved successful progress in dozens of cases. The batch promotion of automatic ticketing machine in various branches of Construction Bank such as Beijing Branch and Yunnan Branch was successful, and the automatic card issuing machine was shortlisted by the head office of Bank of China and was sold to more than10 branches. 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. Affected by the general environment of a slow global economic recovery, the international offshore will further shrink. To service outsourcing enterprises in China, the U.S. and European markets will shrink substantially with the re-emergence of trade protectionism and the trend of restarting insourcing . As for the market of outsourcing to Japan, the Japanese economy experienced a sharp decline in recent year. The impact of political factors such as the clash over Diaoyu Islands between China and Japan will gradually emerge after 2013. In recent years, with the outsourcing driving factor changing from "cost arbitrage" to "strategic cooperation" and the development of the "onsite & offshore" delivery model, orders received from overseas and overseas mergers and acquisitions by Chinese service outsourcing enterprises have been increasing. However, the road is not flat. Because of the complicated international political situation and the strengthening of protectionism by western countries, the obstacles and investment risks facing Chinese service outsourcing enterprises have increased, creating adverse impacts for the development of offshore markets.

In 2012, the Company maintained good relations and cooperation with customers including NTT DATA, FITEC and KNT, and enhanced the strategic cooperation with domestic telecommunication operator s such as China Mobile and ChinaUnicom. 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 51.4% as compared to the corresponding period last year, which mainly attributable to the growth of Microsoft and domestic businesses.

With the continued development of new technology, emerging service outsourcing market segments will continue to emerge in China. Sectors such as cloud computing, the Internet of things, e-commerce, mobile Internet, big data and business analysis will bring more new business opportunities.

2. IT components trading

IT component trading business recorded turnover of approximately HK$1,239,465,000 accounting for 51.62% (2011: 43.37%) of the total turnover. The Company will maintain the stable development of IT components business through enlarging its customer base and sales channels.

BUSINESS PLANNING

In 2013, the Company will continue to pursue active market expansion strategies. The Company will further increase the investment in the market and establish more sales channels, strategically expand in provincial cities and major cities by stationing more employees in the cities and further improve the sales staff incentive mechanism. The Company will further expand into the industrial market to ensure breakthroughs in dominant industries such as military, construction and reserve. While establishing a business plan-driven overall budget mechanism, the Company will strengthen its business lines as a marketing engine. The Company will further continue to invest in research and development, stabilize its existing products, develop new products based on the requirements cloud technology, and strengthen the overall capabilities of solutions to innovate its business model and services model. By enhancing its external cooperation, merger and acquisition, the Company will proactively face various challenges and strive for the dominant position in the relevant field of cloud computing.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares during the year.

CODE ON COPRPORATE GOVERNANCE PRACTICES

The Group has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 31 December 2012, save as：(a) Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. Mr. Wang Xingshan is both the Chairman and CEO of the Company. This structure does not comply with code provision A.2.1 of the CG Code. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operation. (b) Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Zhang Tiqin, Mr. Wong Lit Chor, Alexis and Ms. Dai Ruimin(both being independent non-executive Directors) were unable to attend the annual general meeting as they were obliged to be away for business trips. The Company will improve its meeting scheduling and arrangement in order to ensure full compliance with Code A.6.7 in future.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31 December 2012.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2012, including the accounting principles and practices adopted by the Group, and is of the opinion that the preparation of such results comply with applicable accounting standards and requirements, and that adequate disclosures have been made.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) The register of members will be closed from 17 May 2013 to 22 May 2013 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor room 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 May 2013.

(ii) The register of members will be closed from 4 June 2013 to 6 June 2013 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor room 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 3 June 2013.

By Order of the Board
Inspur International Limited
Wang Xingshan
Chairman

Hong Kong, 22 Mar 2013

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, Mr. Samuel Y Shen as non-executive Directors, and Ms. Dai Ruimin, Mr.Zhang Tiqin and as Mr. Wong Lit Chor, Alexis as independent non-executive Directors.