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 2013

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 2013 together with comparative unaudited figures for the corresponding period in 2012.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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Notes	Six months ended 30 June **2013** ***HK$'000*** ***(unaudited)***	 2012 *HK$'000* *(unaudited)* *(restated)*
Continuing operations			
Revenue	2	**507,375**	510,852
Cost of sales		**(273,004)**	(281,060)
Gross profit		**234,371**	229,792
Other income	3	**46,535**	39,675
Administrative and other operating expenses		**(182,635)**	(158,467)
Selling and distribution cost		**(129,288)**	(129,762)
Amortisation of other intangible assets		**(2,603)**	(8,293)
Interest expenses		**(2,869)**	(3,231)
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss		**(7,808)**	(5,400)
Share of（loss) profit of associates		**(8,244)**	2,980
Loss before taxation	4	**(52,541)**	(32,706)
Taxation	5	**(1,026)**	1,931
Profit for the period from Continuing operations		**(53,567)**	(30,775)
Discontinued operations			
Profit for the period from discontinued operations	7	**268,183**	38,580
		214,616	7,805
Profit for the period from continuing and discontinued operations			
Owners of th Comapny		**217,043**	10,475
Non-controlling interests		**(2,427)**	(2,670)
		214,616	7,805
Earnings per share from continuing and discontinued operations	6		
Basic		**5.13 cents**	0.25 cents
Diluted		**5.03 cents**	0.25 cents
Loss per share from continuing operations	6		
Basic		**(1.21) cents**	(0.67) cents
Diluted		**(1.21) cents**	(0.67) cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
		(restated)
Net profit for the period from continuing and discontinuing operations	**214,616**	7,805
Item that may not be reclassified to profit or loss		
Other Comprehensive Income:		
Exchange Difference arising on translation	**32,053**	9,920
Total Comprehensive Income for the period	**246,669**	17,725
Total comprehensive income attributable to:		
Owners of the Company	**249,018**	20,345
Minority interests	**(2,349)**	(2,620)
	246,669	17,725

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	Notes	**30.6.2013** **_HK$'000_** **_(unaudited)_**	31.12.2012 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**200,265**	121,349
Prepaid lease payments		**40,165**	38,146
Goodwill		**14,491**	14,188
Other intangible assets		**18,527**	21,122
Available-for-sale Investment		**23,177**	22,693
Interests in associates		**120,092**	128,489
Interest in a jointly controlled entity		**128,048**	122,629
		544,765	468,616
Current assets			
Inventories		**58,686**	148,309
Trade receivables	9	**160,067**	250,563
Prepayments, deposits and other receivables		**63,894**	64,223
Amounts due from customers for contract work		**87,736**	39,761
Amount due from fellow subsidiaries	9	**487,980**	150,217
Amount due from ultimate holding company	9	**6,220**	11,965
Taxation recoverable		**4,442**	1,241
Pledged bank deposits		**6,500**	14,786
Bank balances and cash		**1,070,687**	1,184,761
		1,946,212	1,866,700
Current liabilities			
Derivative financial instruments		**38,665**	30,857
Trade and bills payables	10	**119,577**	192,276
Other payables, deposits received and accrued expenses		**188,262**	174,896
Amounts due to customers for contract work		**74,866**	85,443
Amount due to fellow subsidiaries	10	**35,438**	26,885
Amount due to ultimate holding company	10	**3,006**	3,221
Redeemable convertible preferred shares	11	**64,973**	64,961
Deferred Income- government grant		**598**	3,903
Taxation payable		**7,107**	11,717
		532,492	594,159
Net current assets		**1, 413,720**	1, 272,541
Total assets less current liabilities		**1,958,485**	1,741,157
Non-current liabilities			
Deferred income-government grant		**13,033**	16,735
Deferred tax liabilities		**18,866**	19,140
		31,899	35,875
		1,926,586	1,705,282

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

	Notes	**30.6.2013** **_HK$'000_** **_(unaudited)_**	31.12.2012 HK$'000 (audited)
Capital and reserves			
Share capital	12	**8,455**	8,455
Reserves		**1,917,402**	1,693,749
Equity attributable to owners of the Company		**1,925,857**	1,702,204
Minority interests		**729**	3,078
Total equity		**1,926,586**	1,705,282

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 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**
At 1 January 2013	**8,455**	**857,437**	**92**	**13,443**	**22,623**	**200,449**	**599,705**	**1,702,204**	**3,078**	**1,705,282**
Exchange differences arising from translation of overseas operation	—	—	—	—	—	31,975	—	31,975	78	32,053
Profit for the period	—	—	—	—	—	—	217,043	217,043	(2,427)	214,616
Total recognise profit (loss) for the period	—	—	—	—	—	31,975	217,043	249,018	(2,349)	246,669
Dividend payable	—	—	—	—	—	—	(25,365)	(25,365)	—	(25,365)
At 30 June 2013	**8,415**	**857,437**	**92**	**13,443**	**21,623**	**232,424**	**794,111**	**1,925,857**	**729**	**1,926,586**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH GENERATED FROM OPERATING ACTIVITIES	**(60,009)**	(68,642)
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	**(47,254)**	36,472
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(28,222)**	(49,820)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(135,485)**	(81,990)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,184,761**	1,263,720
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**21,411**	5,599
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**1,070,687**	1,187,329

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 2013. 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 software and embedded solution and software outsourcing. An operation regarding the trading of IT components was discontinued in the current period. The Segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 7.

About these operating divisions is presented below:,

Segment revenues and results for the six months ended 30 June 2013

	Information technology services		
	Software and embedded solution	**software outsourcing**	**Total**
	HK$'000	**HK$'000**	***HK$'000***
Revenue	**410,015**	**97,360**	**507,375**
Segment results	**(38,715)**	**7,719**	**(30,996)**
Unallocated income			**411**
Unallocated corporate expense			**(3,035)**
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss			**(7,808)**
Share of results of associates	**(8,244)**	–	**(8,244)**
Interest expenses			**(2,869)**
Profit before taxation			**(52,541)**
Taxation			**(1,026)**
Profit for the period			**(53,567)**

2. REVENUE AND SEGMENT INFORMATION (CON'T)

Business segment (CON'T)

Segment revenues and results for the six months ended 30 June 2012

	Information technology services		
	Software and embedded solution	software outsourcing	Total
	HK$'000	HK$'000	*HK$'000*
Revenue	419,539	91,313	510,852
Segment results	(28,670)	5,302	(23,368)
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			(32,706)
Taxation			1,931
Profit for the period			(30,775)

3. Other income

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
		(restated)
Interest income	**12,865**	17,560
VAT refund	**19,476**	20,234
Government subsidies and grants	**13,456**	1,736
Others	**738**	145
	46,535	39,675

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
		(restated)
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**106,039**	116,317
Depreciation	**12,482**	14,906
Amortisation of other intangible assets	**2,603**	8,293

5. TAXATION

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
		(restated)
Current tax:		
Hong Kong	**-**	-
PRC Enterprise Income Tax	**1,554**	-
Deferred taxation	**(528)**	(1,931)
	1,026	(1,931)

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	
	2013	2012
	HK$'000	*HK$'000*
		(restated)
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)	**217,043**	10,475
Interest on redeemable convertible preferred shares	**2,869**	-
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	**7,808**	-
Earnings for the purpose of diluted earnings/ (loss) per share	**227,720**	10,475
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)	**(51,140)**	(28,105)
Number of shares (in thousand)		
Weighted average number of ordinary shares for the purpose of basic earnings/ (loss) per share	**4,227,440**	4,207,440
Effect of dilutive potential ordinary shares		
–share options	**-**	14,527
–redeemable convertible preferred shares	**297,052**	-
Weighted average number or ordinary shares for the purpose of diluted earnings/ (loss) per share	**4,524,492**	4,221,967

7. DISCONTINUED OPERATIONS

During the reporting period, the company has completed the disposal of IT components trading business. Details of disposal of IT components trading businessare set out in the announcement dated 16 April 2013 and the circular date 21 May 2013.

The profit for the period from discontinued operation is analyzed as follows:

	Six months ended 30 June	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
Profit of IT components operation for the year	**43,869**	38,580
Gain on disposal of IT components operation	**224,314**	-
	268,183	38,580

The results of the IT component operation for the period which have been included in the consolidated income statement of profit or loss or other comprehensive income, were as follows:

	Six months ended 30 June	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
Revenue	**1,234,706**	559,929
Cost of Sales	**(1,181,994)**	(511,024)
Administrative and operating expenses	**(176)**	(2,703)
Profit before taxation	**52,537**	46,204
Taxation	**(8,669)**	(7,624)
Profit for the period	**43,869**	38,580

The Group disposed of the IT component operation. As at June 30, 2013, the Group disposed of IT components trading business. The Group will receive disposal consideration of HK $ 224,480,000 and HK $ 43,869,000 profit for the period before disposal, the receivables relating to such business and the shareholder's loan to IT component operation of HK $ 100,000,000 Consolidated expensed in amounts due from fellow subsidiaries. The net assets of IT component operation at the date of disposal were as follows:

	HK$'000
Consideration received:	
Cash received	**69,456**
Deferred cash consideration	**268,349**
Total consideration received	**337,805**

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	**11**
Inventories	**110,521**
Trade and Bills receivables	**102,964**
Prepayments, deposits and other receivables	**2,495**
Bank balances and cash	**60,973**
Trade and Bills payables	**(51,501)**
Other payables and accrued liabilities	**(2,905)**
Tax payable	**(9,067)**
Amount due to the Group	**(100,000)**
Net assets disposal of	**113,491**
Gain on disposal of a subsidiary:	
Total consideration received	**337,805**
Net assets disposal of	**(113,491)**
	224,314
Net cash inflow arising on disposal:	
Cash received	**69,456**
Less: Bank balances and cash disposal of	**(60,973)**
	8,483

8. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

9. TRADE AND OTHER 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:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Trade receivables		
0-30 days	**81,592**	133,960
31-60 days	**9,537**	18,426
61-90 days	**4,468**	4,986
91-120 days	**6,986**	5,638
Over 120 days	**57,484**	87,553
	160,067	250,563

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Amounts due from fellow subsidiaries		
0-30 days	**439,770**	135,775
31-60 days	**3,407**	9,346
61-90 days	**1,403**	1,936
91-120 days	**10,198**	-
Over 120 days	**33,202**	3,160
	487,980	150,217

	30.6.2013	31.12.2012
	HK$'000	HK$'000
Amounts due from ultimate holding company		
0-30 days	**2,973**	2,986
31-60 days	**1,279**	2,075
61-90 days	**-**	1,003
91-120 days	**664**	-
Over 120 days	**1,304**	5,901
	6,220	11,965

10. TRADE AND BILL 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 reporting date:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Trade and bills payables		
0-30 days	**79,621**	145,579
31-60 days	**12,888**	8,169
61-90 days	**3,048**	7,336
Over 90 days	**24,020**	31,192
	119,577	192,276

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Amounts due to fellow subsidiaries		
0-30 days	**12,353**	21,172
31-60 days	**3,083**	3,382
61-90 days	**3,697**	531
Over 90 days	**16,305**	1,800
	35,438	26,885

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Amounts due to ultimate holding company		
0-30 days	**446**	3,221
31-60 days	**301**	-
61-90 days	**-**	-
Over 90 days	**2,259**	-
	3,006	3,221

11. 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.

REDEEMABLE CONVERTIBLE PREFERRED SHARES

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Liability component	**64,973**	64,961
Conversion option derivative	**30,857**	30,857
Fair value change in conversion option derivative	**7,808**	-
	103,638	95,818

12.SHARE CAPITAL

	Number of shares	
	'000	*HK$'000*
Ordinary shares of HK$0.002 each		
Authorised:		
At 1 January 2013	10,000,000	20,000
Issued:		
At 1 January 2013	4,227,440	8,455
At 30 June 2013	4,227,440	8,455

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

13. CAPITAL COMMITMENTS

	30.6.2013 ***HK$'000***	31.12.2012 *HK$'000*
Capital expenditure in respect of the construction of property contracted for but not provided in the consolidated financial statements	**461,918**	502,485
Capital expenditure in respect of the construction of property authorized but not contracted for	**96,374**	173,520

14. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in the condensed consolidated statement of financial position, certain of which also constitute connected transaction under Chapter 14A of Listing Rule of HKEX, the Group had entered into the following related party transactions during the period:

		Six months ended	
		30.June.2013 ***HK$'000***	30.June.2012 *HK$'000*
	Note		
Supply Transactions	(i)	**349,399**	212,802
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	**64,202**	56,437
(2) The related commission amount		**414**	304
Purchase Transactions	(iii)	**41,714**	6,281
Common Services Transactions	(iv)	**5,420**	5,024
Processing Transactions	(v)	**9,851**	15,482

Notes:

(i) The Inspur group will, with reference to the market 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% or less 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) During the period, the Group disposed of Inspur (HK) electronics limited, a wholly owned subsidiary of the Group to a fellow subsidiary of the Company for a cash consideration of HKD 294,230,000. Details of the disposal are set out in the announcement dated 16 April 2013 and the circular date 21 May 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the period, the Company disposed of its trading of IT components, and such disposal was completed at the end of June. Accordingly, the Company classified it as discontinued operations and restated the comparative information of last year. Net operating profit from trading of IT components recognized during the period amounted to HK$43,869,000 (2012: HK$38,580,000) and the gain from the equity disposal amounted to HK$224,314,000, resulting in a significant increase in the operating profit for the period as compared with the corresponding period of last year. The profit from continuing and discontinued operations attributable to the equity holders of the Company amounted to HK$217,043,000 (2012: HK$ 10,475,000).

(1) Steady performance of revenue

The revenue from continuing operations of the Group decreased by 1% to approximately HK$507,375,000 (2012: HK$510,852,000) as compared with the corresponding period of last year. The revenue of software development and solution was HK$410,015,000 (2012: HK$419,539,000), representing a decrease of 2.28% as compared with the corresponding period of last year. The revenue of the software outsourcing business was HK$97,360,000 (2012: HK$91,313,000), representing an increase of 6.62% as compared with the corresponding period of last year.

(2) Decrease in profit from operations

During the reporting period, gross profit from continuing operations was approximately HK$234,371,000 (2012: HK$229,791,000), representing an increase of 1.99% and a profit margin of 46.19% (2012: 44.98%). Net loss from continuing operations was HK$53,567,000 (2012: HK$30,775,000). Basic losses per share and diluted losses per share from continuing operations were HK$1.21 cents (2012: 0.67 cents). Earnings per share and diluted earnings per share from continuing and discontinued operations were HK$5.13 cents (2012: 0.25 cents) and HK$5.03 cents (2012: HK$0.25 cents) respectively.

The loss from continuing operations increased by approximately HK$22,792,000 as compared with the corresponding period of last year. The increase was mainly attributable to: 1. fierce competition in the market and the overall weak economic situation during the reporting period, resulting in gross profit of the Group only increased by 1.99% as compared with the corresponding period of last year; and 2. the increase in overall sales and administrative expenses of 8.22% to approximately HK$311,923,000 (2012: 288,229,000) 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.

(3) Sufficient working capital

As at 30 June 2013, shareholders' funds of the Group amounted to approximately HK$1,925,857,000 (31 December 2012: HK$1,702,204,000). Current assets were approximately HK$1,946,212,000, including cash and bank balances of HK$1,070,687,000, 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$532,492,000, mainly comprised trade payable, amount due to fellow subsidiaries, other payables and accrued expenses, and preferred shares. The Group's current assets were approximately 3.65 times (31 December 2012: 3.14 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2013.

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 2013, the Group had 3,690 employees. Total employee remuneration, including the Directors' fees and contributions to the Mandatory Provident Funds, amounted to approximately HK$214,893,000 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 2013, bank deposits HKD 6,500,000 of the Group's assets was pledged (31 December 2012:HKD14,786,000).

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 2013, the Group had no material contingent liabilities (31 December 2012: nil).

BUSINESS REVIEW

In the first half of 2013, as domestic and foreign sentiment remained stagnant, the Group fully implemented regional industry market reform and optimized its operating model by seizing favorable opportunities brought forth by the demand for management improvement from large-scale conglomerates represented by central 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 the first half of 2013, the Company fully implemented regional industry market reform and optimized its operating model so as to establish a market-oriented management system in terms of products, industries and regional matrix and set up a comprehensive budget mechanism driven by business planning. In the first half of the year, such new mechanisms operated smoothly and relevant business processes were constantly improved.

Increasing investment in market development: the Company established and improved its market map, fully implemented customer designation system and quickly replenished market force to speed up the subversion of human resources structure through methods such as the new employee training camp. The Company deepened its existing advantages in industries, such as military, construction and reserve, and further expanded cooperation with central enterprises, such as China Grain Reserves, China Railway and China South Industries. As the Company adopted various measures to facilitate regional development, strengthen pipeline construction and uniform sales management system, its overall operating management capacity in the market was further enhanced.

In terms of marketing: By establishing the conception of viewing the national market as a chess game, the Company implemented unified planning and organization for key regions and industries to capture the market hot spots in respect of lean accounting, information security and the change of applicable taxes from business taxes to value-added taxes. In this regard, the Company has successively organized more than 30 special promotion events in respect of military, construction and pharmaceuticals, which effectively enhanced its brand influence and market competition. The Company established good cooperative relationship with many state-owned assets supervision and administration commissions and finance departments at provincial and municipal level by fully leveraging on favorable opportunities brought forth by the pilot of XBRL promoted by the Ministry of Finance in 2013, which helped to expand our pioneering advantages in terms of XBRL products and lain a solid foundation for our further expansion.

Reinforcing research and development of new products: with the combination of independent research and development and external cooperation, the Company relied on technical innovation to enhance its product competitiveness . The Company started to research and develop a new generation of cloud computing products for corporates, such as GSP7 and GS7 on the basis that its existing products have been constantly improved. By speeding up the research of management accounting and the development of related products, the Company took the lead in defining and releasing Inspur cloud computing for finance and launched various new products such as Inspur CRM, master data management and mobile application, all of which were well received by the market;

Strengthening construction of operation and maintenance service system: the Company established and implemented capability assessment model, deepened the construction and reuse of the system and methodology and strengthened project establishment and relevant acceptance inspection and reinforced training authentication. The Company quickly assigned service personnel based on its national layout, resulting in substantial improvement in the project delivery capabilities. As the Company promoted the productization, standardization and specialization for its service and conducted special events such as follow-up calls and routing inspection, the coverage rate, renewal rate and new signing rate of its service products increased significantly while its customer satisfaction was enhanced.

In the first half of 2013, with the development of mobile internet, the overall performance of telecommunication operators underwent a downtrend. The traditional OSS companies were not only confronted with transformation of business model and fierce price competition among each other, but also faced with accelerating entry of internet and equipment companies. 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 the second half of 2013, LTE is expected to be launched on a large scale and investment in communication industry will continue to maintain growth. With the launch of LTE, network-oriented OSS will provide a key support for network quality. 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.

(2) Embedded systems and related services

In terms of tax collection equipment, with the launch of a nationwide pilot project for national structural tax reduction policy and the policy of replacing the business tax with a value-added tax, and the fast development of online billing, the overall size for tax-collection cashier machines across the country was decreased significantly, which caused a comparatively considerable decline in the Company's sales. As the outlook of this market will continue to remain gloomy in future, it is necessary for the Company to undergo transformation. The Company's automatic ratepaying machines are being understood and recognized by more and more tax payers and tax authorities, and up to now, Inspur ARMs are being applied by the taxpayer service halls in over 200 cities within the country.

Under the circumstance that the market environment occurred material changes, the Company would strengthen the networked and intelligent functions by the research and development of products, and realize the new applications in old industries by place large efforts in certain places, with the combination of which, the tax collection life cycle has been extended. Meanwhile, the Company sets its new business direction to develop online billing services and focuses on the research and development of online billing business. There are 6 pilot projects for the application of online billing system and are being implemented by provincial tax authorities. The Company will make greater efforts in the tax field, with an aim to achieve breakthrough in online billing, electronic billing, tax data analysis services and other related areas.

In the first half of 2013, in terms of the automatic financial terminal market, the Company further improved the 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 entered into mass production; the research and development for new product VTM has commenced, and the development for its first version of sample machine has completed. As for market expanding, apart from continuing to develop the conventional automatic terminal and automatic ticketing machines market, the Company are active in developing for new products market, and banking and medical products have been applied in major banks; automatic card-issuing machines were sold to a number of branches of the Bank of China and the Agricultural Bank, and shortlisted by the head office of China Everbright Bank. 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 2013, the IT outsourcing business in the leading markets, such as the U.S., European and Japanese markets, was adversely affected by the economic situation. The scale advantage formed through cooperation of large service outsourcing enterprises in the industry made the competition in the industry more intensive. Under this market environment, the Company maintained the closely cooperation relationship with strategic customers, such as Microsoft, FITEC, NTT DAT, KNT and China Mobile, through which the cooperation projects were gradually expanded, seeking to exploit the domestic market potential and expanding the business scale in the country.

The global layout for the Company's outsourcing business will be more sophisticated in the future, forming a situation of "Outsourcing to U.S. and Europe + Outsourcing to Japan + Outsourcing to Mainland China"at the same time, going hand in hand. The Company's ability to withstand risks will be enhanced, the distribution of customers will be more reasonable, and the global outsourcing ability will be improved continuously, seeking to improve the Company's overall scale and profitability.

BUSINESS PLANNING

In the second half of 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 speeding up stationing more employees in the cities and further improve the sales staff incentive mechanism; in respect of R&D and implementing work, the Company initiated " projects contract responsibility system", to further motivate people's potential and speed up the process of project delivery. The Company will further expand into the industrial market to ensure breakthroughs in dominant industries such as military, construction and reserve. While promoting the implementation of 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 proactively motivating its external cooperation, merger and acquisition, the Company will boldly face various challenges and strive for the dominant position in the relevant field of cloud computing.

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

As at 30 June 2013, 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 2013, 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 2013, 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)	1,357,390,000	32.11%
Inspur Overseas Investment Limited	Beneficial owner	1,357,390,000	32.11%
WANG Yukun	Beneficial owner	302,100,000	7.14%

Note: Inspur Group Limited is taken to be interested in 1,357,390,000 shares due to its 100% shareholdings in the issued share capital of Inspur Overseas Investment Limited.

(B) Short positions in shares and underlying shares and equity derivatives of the company

As at 30 June 2013, 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 6.57% 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 2013, 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 2013, 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. 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 Tiqin, 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 2013.

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 2013

By Order of the Board

Inspur International Limited

Wang Xingshan

Chairman

Hong Kong, 22 August 2013

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