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 2019

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 2019 together with comparative unaudited figures for the corresponding period in 2018. These interim results have not been reviewed by the auditors of the Company, but have been reviewed by the audit committee of the company.

Financial highlights for the six months ended 30 June 2019:

— Turnover increased by 24.7% compared with the corresponding period in 2018 to approximately HKD 1,391,174,000 (2018 restated: HKD 1,115,311,000).

— Profit attributable to owners of the Company during the period was approximately HKD 113,236,000 (2018 restated: HKD 135,491,000).

— Basic profit per share attributable to owners of the Company during the period was approximately HK 9.94 cents(2018 restated: HK 12.40 cents).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	NOTES	**Six months ended**	
		30/06/2019	30/06/2018
		HK$'000	*HK$'000*
			(Restated)
Revenue	3	**1,391,174**	1,115,311
Cost of sales		**(878,014)**	(706,955)
Gross profit		**513,160**	408,356
Other income	4	**70,802**	92,374
Other gains and losses		**23**	(87)
Impairment losses, net of reversal	11	**(18,063)**	(2,750)
Administrative expenses		**(277,134)**	(241,519)
Selling and distribution expenses		**(198,051)**	(159,470)
Financial costs		**(1,027)**	(13,504)
Change in fair value of investment properties		**424**	8,702
Share of profit of an associate		**21,256**	65,861
Share of (loss) profit of a joint venture		**1,931**	(4,467)
Profit before tax		**113,321**	153,496
Income tax expenses	5	**(1,639)**	(3,171)
Profit for the year	6	**111,682**	150,325
Profit for the year attributable to owners of the Company		**113,236**	135,491
Profit for the year attributable to non-controlling interests		**(1,554)**	14,834
Earnings per share			
– Basic (HK cents)	8	**9.94**	12.40
– Diluted (HK cents)		**9.77**	12.38

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

	Six months ended	
	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
Profit for the year	**111,682**	150,325
Other comprehensive income (expense):		
Items that will not be reclassified to profit or loss:		
Gain on revaluation upon transfer from property, plant and equipment to investment properties	**17,323**	—
Share of other comprehensive (expense) income of an associate and a joint venture	**(695)**	—
Exchange differences arising on translation to presentation currency	**2,482**	(57,314)
	130,792	93,011
Total comprehensive income for the year	**130,792**	93,011
Total comprehensive income for the year attributable to:		
– Owners of the Company	**128,569**	79,460
– Non-controlling interests	**2,223**	13,551
	130,792	93,011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	NOTES	**30/06/2019**	31/12/2018
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**475,870**	505,430
Investment properties		**895,787**	826,697
Prepaid lease payments		**—**	56,773
Right-of-use assets		**66,538**	—
Other intangible assets		**41,576**	19,986
Equity instrument at FVTOCI		**40,815**	40,849
Interest in an associate		**320,387**	299,715
Interest in a joint venture		**98,616**	96,796
Advance payment for interest in a subsidiary		**—**	19,358
Deferred tax assets		**1,132**	—
Goodwill		**10,242**	—
		1,950,963	1,865,604
Current assets			
Inventories		**13,140**	16,194
Trade and bills receivables	9	**344,273**	281,149
Debt instruments at FVTOCI		**18,076**	32,129
Prepaid lease payments		**—**	1,445
Prepayments, deposits and other receivables		**124,547**	76,556
Contract assets	10	**263,398**	191,885
Financial assets at fair value through profit or loss ("FVTPL")		**33**	34
Amount due from ultimate holding company	9	**7,813**	5,368
Amounts due from fellow subsidiaries	9	**281,596**	323,562
Pledged bank deposits		**9,008**	22,589
Bank balances and cash		**758,172**	865,181
		1,820,056	1,816,092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	NOTES	**30/06/2019**	31/12/2018
		HK$'000	*HK$'000*
Current liabilities			
Trade payables	12	**260,343**	180,653
Other payables, deposits received and accrued expenses		**386,261**	482,274
Contract liabilities		**478,100**	511,281
Amount due to ultimate holding company	12	**1,461**	1,079
Amounts due to fellow subsidiaries	12	**50,354**	76,132
Deferred income - government grants		**94,282**	45,317
Tax liability		**26,594**	20,986
Lease liabilities - curent		**6,015**	—
		1,303,410	1,317,722
Net current assets		**516,646**	498,370
Total assets less current liabilities		**2,467,609**	2,363,974
Non-current liabilities			
Deferred income - government grants		**31,006**	79,307
Deferred tax liabilities		**222,923**	231,570
Lease liabilities		**8,683**	—
		262,612	310,877
		2,204,997	2,053,097
Capital and reserves			
Share capital	13	**11,389**	11,389
Reserves		**2,138,804**	2,042,552
Equity attributable to owners of the Company		**2,150,193**	2,053,941
Non-controlling interests		**54,804**	(844)
Total equity		**2,204,997**	2,053,097

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to owners of the Company											
	Share capital	Share premium	Other reserve	Special reserve	Share option reserve	Translation reserve	Revaluation reserve	Merger reverse	Retained profits	Subotal	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)	*(note b)*								
At 1 January 2018	9,527	1,034,431	(132,197)	92	9,427	125,092	84,395	16,236	775,782	1,922,785	(100,581)	1,822,204
Profit for the year	–	–	–	–	–	–	–	–	135,491	135,491	14,834	150,325
Other comprehensive income	–	–	–	–	–	(56,031)	–	–	–	(56,031)	(1,283)	(57,314)
Total comprehensive income for the year	–	–	–	–	–	(56,031)	–	–	135,491	79,460	13,551	93,011
Contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	–	10,261	10,261
Dividend paid	–	–	–	–	–	–	–	–	(28,582)	(28,582)	–	(28,582)
Recognition of equity-settled share-based payments	–	–	–	–	6,780	–	–	–	–	6,780	–	6,780
	–	–	–	–	6,780	(56,031)	–	–	106,909	57,658	23,812	81,470
At 30 June2018	9,527	1,034,431	(132,197)	92	16,207	69,061	84,395	16,236	882,691	1,980,443	(76,769)	1,903,674
At 1 January 2019	11,389	1,561,333	(392,546)	92	56,344	21,059	106,827	(380,797)	1,070,240	2,053,941	(844)	2,053,097
Profit for the year	–	–	–	–	–	–	–	–	113,236	113,236	(1,554)	111,682
Other comprehensive (expense) income	–	–	–	–	–	2,169	13,164	–	–	15,333	3,777	19,110
Total comprehensive (expense) income for the year	–	–	–	–	–	2,169	13,164	–	113,236	128,569	2,223	130,792
Contribution by non-controlling interest	–	–	–	–	–	–	–	–	8,083	8,083	14,708	22,791
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	38,717	38,717
Dividend paid	–	–	–	–	–	–	–	–	(45,557)	(45,557)	–	(45,557)
Recognition of equity-settled share-based payments	–	–	–	–	5,157	–	–	–	–	5,157	–	5,157
	–	–	–	–	5,157	2,169	13,164	–	75,762	96,252	55,648	151,900
At 30 June2019	11,389	1,561,333	(392,546)	92	61,501	23,228	119,991	(380,797)	1,146,002	2,150,193	54,804	2,204,997

Notes:

(a) Other reserve arose from the acquisition of partial interest in a subsidiary without changes in control.

(b) The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the reorganisation prior to the listing of the Company's shares in 2003.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
NET CASH FROM OPERATING ACTIVITIES	**(108,921)**	(47,282)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**23,434**	3,845
NET CASH USED IN FINANCING ACTIVITIES	**(22,127)**	(52,732)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(107,614)**	(96,169)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**865,181**	1,391,022
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**605**	(8,453)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
BANK BALANCE AND CASH	**758,172**	1,286,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. GENERAL

Inspur International Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Inspur Overseas Investment Limited ("Inspur Overseas"), a company incorporated in the British Virgin Islands and Inspur Group Limited ("IPG"), a company established in the People's Republic of China (the "PRC") are the immediate holding company and ultimate holding company of the Company, respectively.

The functional currency of the Company is Renminbi ("RMB"). For the convenience of the consolidated financial statement users, the consolidated financial statements are presented in Hong Kong Dollar ("HK$"), as the Company's shares are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of the subsidiaries (together with the Company, referred to as the "Group") are engaging in software development, cloud services and Internet of Things (IoT).

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described above, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and on the disclosures set out in these consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June 2019			
	Cloud services	**Management software**	**Internet of things (IoT) solution**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenue	**160,569**	**1,043,512**	**187,093**	**1,391,174**
Segment profit	**(45,197)**	**143,101**	**6,224**	**104,128**
Unallocated other income, gains and losses, net				**32,209**
Change in fair value of investment properties				**424**
Share of profit of an associate				**21,256**
Share of loss of a joint venture				**1,931**
Share-based payments				**(5,157)**
Unallocated administrative costs				**(22,777)**
Impairment losses, net of reversal				**(18,063)**
Financial costs				**(630)**
Profit before tax				**113,321**

3. **REVENUE AND SEGMENT INFORMATION – CONTINUED**

	Six months ended 30 June 2018			
	Cloud services	Management software	Internet of things (IoT) solution	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	78,575	900,323	136,413	1,115,311
Segment profit	(23,116)	113,556	2,969	93,409
Unallocated other income, gains and losses, net				26,700
Change in fair value of investment properties				8,702
Share of profit of an associate				65,861
Share of loss of a joint venture				(4,467)
Share-based payments				(6,780)
Unallocated administrative costs				(25,346)
Impairment losses, net of reversal				(2,750)
Financial costs				(1,833)
Profit before tax				153,496

4. **OTHER INCOME**

	Six months ended	
	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
Other income:		
Interest income on bank deposits	**2,663**	3,988
Interest income on financial assets at FVTPL	**5,706**	17,416
VAT refund	**29,257**	33,080
Government subsidies and grants	**3,087**	13,491
Rental income	**29,746**	24,263
Others	**343**	136
	70,802	92,374

5. INCOME TAX EXPENSES

	Six months ended	
	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
Current tax:		
PRC EIT	**3,867**	2,225
Under provision in prior year		
PRC EIT	**(2,068)**	382
Deferred taxation	**(160)**	564
	1,639	3,171

6. PROFIT FOR THE PERIOD

	Six months ended	
	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
Profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expense in cost of sales	**166,384**	121,939
Depreciation for property, plant and equipment	**13,577**	18,435
Amortisation for other intangible assets	**1,873**	1,092

7. DIVIDENDS

The Board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2019(six months ended 30 June 2018: nil).

8. EARNINGS PER SHARE

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

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

	Six months ended	
	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Profit for the period attributable to the owners of the Company	**113,236**	135,491

	Six months ended	
	30/06/2019	30/06/2018
Number of shares	***'000***	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**1,138,921**	1,092,537
Effect of dilutive potential ordinary shares arising from the outstanding share options	**20,281**	2,010
Weighted average number of ordinary shares for the purpose of diluted earnings per share*	**1,159,202**	1,094,547

* The weighted average number of ordinary shares for the purpose of diluted earnings per share for the year ended 30 June 2018 has been adjusted on the assumption that the acquisition of Tianyuan Communication had been completed on 1 January 2018.

9. TRADE AND BILLS RECEIVABLES

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximated the revenue recognition date.

	30/06/19	31/12/18
	HK$'000	*HK$'000*
0-30 days	**163,111**	182,716
31-60 days	**32,016**	22,607
61-90 days	**10,658**	4,574
91-120 days	**30,934**	10,763
121-180 days	**34,145**	19,187
Over 180 days	**73,409**	41,302
	344,273	281,149

The following is an aged analysis of amount due from fellow subsidiaries and ultimate holding company for the purchase of goods and services at the reporting date.

	30/06/19	31/12/18
	HK$'000	*HK$'000*
Amounts due from fellow subsidiaries		
0-30 days	**90,035**	277,475
31-60 days	**45,238**	7,630
61-90 days	**23,165**	8,077
91-210 days	**102,480**	11,757
Over 210 days	**20,678**	18,623
	281,596	323,562

9. TRADE AND BILLS RECEIVABLES – CONTINUED

	30/06/19	31/12/18
	HK$'000	*HK$'000*
Amounts due from ultimate holding company		
0-30 days	**3,281**	520
31-60 days	**—**	6
61-90 days	**—**	—
Over 90 days	**4,532**	4,842
	7,813	5,368

10. CONTRACT ASSETS

	30/06/2019	31/12/2018
	HK$'000	*HK$'000*
Current-software development	**263,398**	191,885

11. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended	
	30/06/2019	30/06/2018
	HK$'000	*HK$'000*
		(Restated)
Impairment loss recognised/reversed in respect of		
trade receivables	**7,138**	965
contract assets	**9,349**	1,676
other receivables	**1,576**	109
	18,063	2,750

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

12. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date.

	30/06/2019	31/12/2018
	HK$'000	*HK$'000*
Trade payables		
0-30 days	**52,830**	30,106
31-60 days	**7,063**	18,318
61-90 days	**8,642**	4,734
Over 90 days	**191,808**	127,495
	260,343	180,653

The following is an aged analysis of amount due to fellow subsidiaries and ultimate holding company for the purchase of goods and services at the reporting date.

	30/06/2019	31/12/2018
	HK$'000	*HK$'000*
Amounts due to fellow subsidiaries		
0-30 days	**2,707**	38,112
31-60 days	**5,874**	13,527
61-90 days	**346**	397
Over 90 days	**41,427**	24,096
	50,354	76,132

	30/06/2019	31/12/2018
	HK$'000	*HK$'000*
Amounts due to ultimate holding company		
0-30 days	**293**	98
31-60 days	**22**	—
61-90 days	**13**	—
Over 90 days	**1,133**	981
	1,461	1,079

13. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	30/06/2019	30/06/2018	**30/06/2019**	30/06/2018
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.01 each:				
Authorised	**2,000,000**	2,000,000	**20,000**	20,000
At beginning of year	**1,138,921**	952,736	**11,389**	9,527
At end of year	**1,138,921**	952,736	**11,389**	9,527

14. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

	Fair value as at		Fair value	
Financial assets	**30/06/2019**	12/31/2018	**hierarchy**	**Valuation techniques and key inputs**
	HK$'000	*HK$'000*		
Equity instrument at FVTOCI	**40,815**	40,849	Level 3	Market approach – in this approach, the fair value of an asset by reference to the transaction information of comparable assets.
Debt instruments at FVTOCI	**18,076**	32,129	Level 2	Discounted cash flow – future cash flows discounted at a rate that reflects the credit risk of various counterparties.

Fair value of financial instruments that are recorded at amortized cost

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in these consolidated financial statements approximate their fair values.

15. RELATED PARTY TRANSACTIONS/BALANCES

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	
	Note	**30/06/2019**	30/06/2018
		HK$'000	*HK$'000*
			(Restated)
Supply Transactions	(i)	**35,602**	14,843
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	**372,962**	176,843
(2) The related commission amount		**3,719**	1,769
Purchase Transactions	(iii)	**19,032**	18,972
Common Services Transactions	(iv)	**5,794**	6,163
Leasing Services Transactions	(v)	**27,329**	20,994

Notes:

(i) The Group will supply Inspur Group goods and service with reference to the market price.

(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 favorable than the terms available from independent third parties for provision of similar services.

(v) The Group shall provide office for use (Leasing Services) to Inspur Group. The expense to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favorable than the terms available to independent third parties for provision of similar services.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period ended 30 June 2019 under review, the revenue of the Group is mainly derived from the PRC business and is denominated in Renminbi. Due to the devaluation of the average translation exchange rate during the period, the turnover in presented Hong Kong Dollars is impaired about 6.5%. During the same period of last year, due to acquisition of Inspur Tianyuan Communications, the comparatives of last year were restated.

Although the economic situation is not optimistic, the Group's revenue during the period ended 30 June 2019 reached new heights and made a new breakthroughs in the cloud services business transformation. During the period, our Group's revenue increased 24.7% and gross profit margin increased 25.7% compared with last corresponding period.

(1) Revenue from Cloud Services increased sharply

During the reporting period, the Group recorded a revenue of HK$1,391,174,000 (2018 restated: HK$1,115,311,000) representing an increase of 24.7% as compared with last same period. The revenue from Cloud Services for the period was HK$160,569,000 (2018 restated: HK$78,575,000), representing an increase of 104.4 % comparatively. The revenue from Enterprise Resource Management for the period was HK$1,043,512,000 (2018 restated: HK$900,323,000), representing an increase of 15.9% as compared with last same period. The revenue from the Internet of things was HK$187,093,000 (2018 restated: HK$136,413,000), representing an increase of 37.2% as compared year-on-year. Revenue from cloud services weighted 11.5% of total revenue and was the new growth driven.

(2) Gross profit from operations increased sharply

During the reporting, gross profit of the Group was HK$513,160,000 (2018 restated: HK$408,356,000), representing an increase of 25.7% as compared with last same period. The Group's gross profit margin was 36.9% (2018 restated: 36.6%). The year-to-year increase in gross profit margin was mainly due to: 1) Portion from high-margin cloud service business was increased and driven overall gross margin growth; 2)Although the competition is still fierce, due to the improvement in product delivery efficiency, the gross profit margin of the management software business keeps improving constantly.

(3) Selling and distribution expenses and administrative expenses under effective control

During the reporting period, selling and distribution expenses and administrative expenses amounted to HK$475,185,000 (2018 restated: HK$400,989,000), representing an increase of 18.5% as compared with last same period. The expense increasing is mainly due to aggressive expansion in cloud services business and more recruitment of R&D and marketing staffs to expand our business scale. Finally the overall staff cost of the Group has increased.

(4) Other incomes and other gains and losses

During the reporting period, the other incomes and other gains and losses amounted to HK$70,825,000 (2018 restated: HK$92,287,000) reducing 23.3% as compared with last same period. The main reasons are: 1) bank interest income decreased 60.9% comparatively to about HK$8,369,000 (2018 restated:HK$21,404,000) because of reduction in currency deposit after payment of Inspur Tianyuan Communication acquisition, 2) refund from VAT was reduced 11.6% to HK$29,257,000 (2018 restated:HK$33,080,000) because of VAT tax reform, 3)an amount of HK$3,087,000 (2018 restated:HK$13,491,000)from government subsidies and grants were received and recognized as income, which represented a decline of 77.1% as compared with last same period.

(5) Segment profit of our business of the Company increased

During the reporting period, segment profit of the business was approximately HK$104,128,000 (2018 restated: HK$93,409,000) representing a 11.5% increase comparatively. Main reasons were: (1) the segment profit from ERM business was about HK$143,101,000(2018 restated: HK$113,556,000) representing an increase of 26% compared with last same period, (2)segment of cloud services business recorded in loss, which set-off the part of increase in profit from ERM business.

(6) Profit attributable to owners of the company maintains steady

During the reporting period, net profit attributable to the owners of the Company was HK$113,236,000 (2018 restated: HK$135,490,000), representing 16.4% decrease comparatively, mainly due to: 1) During the reporting period, because of the impact from the economic situation, the share of profit from an associate was about HK$23,188,000(2 018:HK$61,394,000) and represented 62% decreased compared with last same period, 2) Segment profit from operation business was increased which set-off part of the reduction.

Basic earnings per share were HK$9.94 cents (2018 restated: HK$12.40 cents) and diluted earnings per share were HK$9.77 cents (2018 restated: HK$12.38 cents).

(7) Financial resources and liquidity

As at 30 June 2019, equity attributable to owners of the Company amounted to HK$2,150,193,000 (at 31 December 2018: HK$2,053,941,000). Current assets amounted to HK$1,820,056,000 of which HK$758,172,000 was bank deposits and cash balances which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses amounted to HK$1,303,410,000. The Group’s current assets were around 1.40 times over its current liabilities (31 December 2018: 1.38 times).

As at 30 June 2019 and 31 December 2018, 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. Our company's functional currency is Renminbi and accepts reporting currency as HK dollar. During the reporting period, due to the impact on exchange difference arising on translation of currency, the range of changes in figures represented in the reports is slightly less than the actual business operation results.

CAPTIAL STRUCTURE

The Group finances its operations mainly from shareholder equity, internal generated funds from operation results.

EMPLOYEE INFORMATION

As at 30 June 2019, the Group had 4,942 employees. During the reporting period,total employees remuneration,including directors'remuneration and mandatory provident fund contributions amounted to approximately HK$525,248,000.

According to the 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 programs to the management and other employees to enhance their skills and knowledge.

CHARGES ON ASSETS

As at 30 June 2019, bank deposits in the amount approximately HK$9,008,000 of the Group's assets was pledged (31 December 2018: HK$22,589,000).

BUSINESS REVIEW

During the reporting period, the Group responded to the digital transformation needs of enterprises and focused on "Cloud+Data+AI". Through application of new technologies such as cloud computing, big data, Internet of Things, artificial intelligence and blockchain etc, we are fully accelerating the upgrade of management software products and cloud services. Inspur Cloud ERP as a new kinetic energy for enterprise transformation and upgrading aims to help customers build smart enterprises.

During the reporting period, the Group accelerated the transformation to the cloud, launched cloud products such as HCM Cloud 3.0 and PS Cloud 2.0 etc, established a digital transformation promotion alliance, and cooperated with partners to lead the enterprises' digital transformation. During the period, the Group deepened its large customer strategy and signed contracts with customers such as China Forestry, Guangzhou Water Supply, China Railway High-tech Industry, Tianjin Energy, Nanshan Holdings, Zhongtong Express, BAIC Motor, Donghao Lansheng and Weichai Power. In 2019, the company was recommanded as the preferred supplier of China Supplier of China Finance Cloud. PS Cloud and Cloud Accounting won the award such as "2019 CIS Top Ten Innovative Products of the Year", "Excellent Solution for Industrial Internet APP of Ministry of Industry and Information Technology" and "Reliable Products for SME financial services of SME in 2019" etc. the brand and market influence of company is further enhanced.

1. Cloud service business

The Group provides comprehensive cloud services to enterprises of different scales and empowers Inspur's partners and enterprises to enhance their core competitiveness in the cloud era. During the reporting period, our revenue from cloud services business realised a rapid growth, amounted HK$160,569,000 representing 104.4% growth comparatively.

1.1 Large enterprises market

During the reporting period, the company continued to optimize the large-scale enterprise digital platform GS Cloud, to increase the promotion of products such as financial cloud, capital cloud, human resource cloud, procurement cloud, collaborative cloud, travel cloud, tax management cloud, marketing cloud etc, and further promote the digital transformation of large enterprises.

During the reporting period, the company responded to the transformation trend of enterprise human resource service and released a new version of the full SaaS human resource cloud (HCM Cloud 3.0). HCM Cloud 3.0 integrates multiple AI technologies, based on business scenario design, industry characterization design, and built-in human resource sharing framework, and meets the large-scale application needs of group companies. In the reporting period, Human Resource Cloud newly signed contracts with Lunan Pharmaceutical Group, Zhujiang Beer, Zhongmu Industrial, etc. The Human Resource Cloud product has accumulated 2.20 million registered users.

In the reporting period, the company's procurement cloud (iGo Cloud) is continuously optimized its internal and external services and accelerated the iterative research and development.

During the reporting period, the company further upgraded the smart enterprise collaborative cloud platform "cloud + intelligence", supported cross-enterprise communication, online enterprise cloud disk, intelligent customer service, task supervision and other applications, and also released the desktop version. During the reporting period, "cloud + intelligence" newly signed with customers such as Shanghai Construction Engineering, Guangzhou Water Supply etc, and accumulated more than 270 thousands registered users. IDC released the " Tracking Report for China Enterprise Team Collaboration Software Market for the Second Half of 2018", showing that in the Chinese enterprise team collaborative software SaaS model market, Inspur "cloud + intelligence" ranked in the top three.

1.2 Growth enterprise market

During the reporting period, the company launched a new generation of open source cloud ERP product “PS Cloud V2.0” for the growth enterprise market. The product includes standard SaaS applications, open source PaaS development platform and industry cloud solutions, forming strong applications in such as finance and supply chain etc. At the same time, it has signed contracts with more than 300 partners in business of sales, delivery, consulting, micro-services etc. The company newly signed with the industry head enterprises such as HFY-group, Overland, Macrolink Group and others. PS Cloud has more than 32,000 registered users. This product was awarded “Excellent solution for industrial internet APP” by the Ministry of Industry and Information Technology and also praised by SaaS customers with high satisfaction.

1.3 Small and micro enterprise market

During the reporting period, in the small and micro enterprise market, the company completed the professional online version of Inspur E-cloud online, and value-added tools. The Company cooperated with a number of banks to provide one-stop intelligent financial and taxation cloud service solutions for small and micro enterprises. During the reporting period, the number of users of Inspur E-cloud online platforms exceeded 1.35 million. Inspur E-cloud online platform won the “2018 Shandong Top Ten Service Brands“,“2019 SME Financial SaaS Cloud Service Trustworthy Product” and many other awards.

2. Management Software Business

During the reporting period, industry coverage and customer base of the Group’s management software business were further expanded. The company fully utilized its product advantages in the fields of financial sharing, intelligent manufacturing, enterprise big data, and network operation support system (OSS) to aggressively push the innovation of digital enterprise transformation and management in large enterprise group customers. The revenue from management software reached HK$1,043,512,000, representing 15.9% year-on-year growth.

The Group adhered to the domestic shared service hotspots, released an integrated open platform, built a financial middle-end, enhanced the ability to integrate financial sharing with different business systems and financial systems, improved product intelligence, and newly added multiple robots handling scenarios such as accounts receivable, reconciliation, etc., and published the financial sharing center board integrated with the big data analysis. The company help the group enterprise customers to strengthen their management and control of subordinate operating units in vertical directions, to realize the integration of financial business horizontally, and to provide strong technical support for effective supervision and management decision-making.

During the reporting period, the company provided better intelligent manufacturing services for the manufacturing industry based on our new generation intelligent manufacturing all-in-one solution "Intelligent Manufacturing +" and Manufacturing Operations Management (MOM) products. During the reporting period, the Group was rated as an excellent service unit for intelligent manufacturing. The intelligent manufacturing products also won the honor of "Best Solution of the year 2018-2019 for China Enterprise Information Market".

During the reporting period, the company released the enterprise intelligent open innovation platform EA-- "Enterprise Brain 3.0", which integrates new IT technologies such as artificial intelligence and big data. Enterprise Brain 3.0 automatically starts business processes based on rules-driven ERP systems to help enterprises achieve automation and intelligent upgrade. Zhengtong Coal Mine have been successfully applied. During the reporting period, the Smart Enterprise Application Promotion Group led by Inspur was selected into the next-generation artificial intelligence industry technology innovation strategic alliance.

Inspur Tianyuan Communication further deepens into the business of telecom operators. Our business based on network operation supporting system (OSS) and operation and maintenance services is further extended to telecom professional companies. The clients not only cover the headquarters of China Mobile, China Unicom, China Telecom and China Tower, but also 31 nation wide provincial-level companies. At the same time, the Company has newly signed with such as China Internet of Things, China Mobile Migu, China Mobile Online and China Telecom Research Institute. Benefiting from the urgent need of telecom operators to develop industrial internet services, the software business of Inspur Tianyuan Communication will continue to expand and to achieving steady growth in revenue of software business.

3. Internet of Things (IoT) solutions

During the reporting period, Our Group's IoT business mainly covers the Grain industry and communication industry and realized revenue of HK$187,093,000, representing 37.2% year-on-year growth.

For the grain and agriculture industry, the Group provides intelligence all-in-one grain solution to grain authorities at all levels and grain-related enterprises and grain depots of large, medium, small and micro-scale. During the reporting period, we launched Intelligent Granary Robot and other products. The Company won the bids for the large-scale grain industry project such as the Inventory check system of National Grain and Material Reserve Bureau, the Intelligent Grain Storage System of Heilongjiang Provincial Reserve Grain Management Co., Ltd., and intelligent upgrading project of the Shanghai Liangyou (Group) Co., Ltd. and Shanghai municipal grain storage etc. The business integration with the acquisition of Zhengzhou Hualiang Technology (China Grain Network) is progressing smoothly.

For the communication industry, during the reporting period, based on the "connection + scenario", the Group further promoted cooperation with China Mobile IoT Company, and comprehensively cooperated in IoT business covered with data centers, platforms, data and applications. Facing every province and a number of industry enterprises, we provide digitalization of industries solution to traditional industries, provide digital industrialized cooperative operation support services for new industry enterprises. The Company utilized telecom operators' network connections and combined with Inspur cloud computing, big data, artificial intelligence and other technologies to integrate massive quantities, multi-source heterogeneous data to provide intelligent end-to-end industry application services. With the advent of the 5G era, "connection + scenario" services will be applied in more industries, and telecom operators will open up the needs of government and enterprise markets. More urgently, the scope of cooperation with operators will be further increased, and the cooperation will be deepened, and the market prospects are full of imagination.

Business Plan

In 2019, the company will strengthen its high-end advantages, accelerate its development in the cloud transformation, increase investment in building a cloud ERP product platform, deepen the operation in large customers, and consolidate high-end advantages. At the same time, accelerate the transition to the cloud, significantly increase the proportion of cloud business, help enterprises to go to the cloud platform, and create a new engine for enterprise digital transformation. In the future, relying on its parent company Inspur Group with its full presence of IaaS-Paas-SaaS and the influence of Inspur brand, and together with the partners to continuously create new technologies, new applications, new modules, and develop enterprise brains with big data and AI, the Company will help the construction of smart enterprises. In the foreseeable future, the Group has become a leader in enterprise management software and cloud services in China.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2019, 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 2019, none of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or their respective associates (as defined in the 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 new share option scheme on 23 November 2018.On 1 December 2017, a total of 30,000,000 share options were grant to certain employees and directors of the group under the 2008 option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$2.06 per share. On 16 October 2018, a total of 30,000,000 share options were grant to certain employees and directors of the group under the 2008 option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$3.16 per share.As at 30 June 2019, the numbers of shares available for issue and remained outstanding under the option scheme are 25,600,000 shares.

AUDIT COMMITTEE

The Company established an audit committee 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. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Mr.DingXiangqian. 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 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 30 June 2019, save as:

(a) 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. Partial Independent non-executive Directors and other non-executive director 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.

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 2019.

By Order of the Board
Inspur International Limited
Chairman
Wang Xingshan

Hong Kong, 16 August 2019

As at the date of this announcement, the Board comprised Mr. Wang Xingshan, Mr. Lee Eric Kong and Mr. Jin Xiaozhou,Joe as executive directors; Mr. Dong Hailong as non-executive director; Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Mr. DingXiangqian as independent non-executive directors.