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INSPUR INTERNATIONAL LIMITED

浪 潮 國 際 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 596)

**HALF-YEAR RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

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 2020 together with comparative unaudited figures for the corresponding period in 2019. 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 2020:

- Turnover decreased by approximately 16.2% compared with 2019 to approximately HKD 1,165,380,000 (2019: HKD 1,391,174,000).
- Loss attributable to owners of the Company during the period was approximately HKD 49,112,000 (2019: profit HKD 113,236,000).
- Basic loss per share attributable to owners of the Company during the period was approximately HK 4.31 cents (2019: profit HK 9.94 cents).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	<i>NOTES</i>	Six months ended	
		30/06/2020	30/06/2019
		HK\$'000	HK\$'000
Revenue	3	1,165,380	1,391,174
Cost of sales		(775,291)	(878,014)
Gross profit		390,089	513,160
Other income	4	67,533	70,802
Other gains and losses		70	23
Impairment losses, net of reversal		(9,359)	(18,063)
Administrative expenses		(167,911)	(178,554)
Research and development expenses		(141,936)	(98,580)
Selling and distribution expenses		(197,795)	(198,051)
Financial costs		(1,542)	(1,027)
Change in fair value of investment properties		(8,440)	424
Share of profit of associates		10,385	21,256
Share of profit of a joint venture		1,676	1,931
(Loss) profit before tax		(57,230)	113,321
Income tax expenses	5	4,326	(1,639)
(Loss) profit for the period	6	<u>(52,904)</u>	<u>111,682</u>
(Loss) profit for the year attributable to owners of the Company		(49,112)	113,236
Loss for the year attributable to non- controlling interests		<u>(3,792)</u>	<u>(1,554)</u>
(Loss) Earnings per share	8		
– Basic (HK cents)		<u>(4.31)</u>	<u>9.94</u>
– Diluted (HK cents)		<u>(4.29)</u>	<u>9.77</u>

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

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
(Loss) profit for the year	(52,904)	111,682
Other comprehensive income (expense):		
<i>Items that will not be reclassified to profit or loss:</i>		
Gain on revaluation upon transfer from property, plant and equipment to investment properties	—	17,323
Share of other comprehensive (expense) of associates and a joint venture	(11,052)	(695)
Exchange differences arising on translation to presentation currency	(26,139)	2,482
	(90,095)	130,792
Total comprehensive (expense) income for the year	(90,095)	130,792
Total comprehensive(expense) income for the year attributable to:		
– Owners of the Company	(85,434)	128,569
– Non-controlling interests	(4,661)	2,223
	(90,095)	130,792

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	<i>NOTES</i>	<u>30/06/2020</u>	<u>31/12/2019</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		376,264	402,130
Investment properties		934,776	961,010
Right-of-use assets		52,812	58,755
Other intangible assets		75,469	68,578
Equity instrument at FVTOCI		34,928	35,609
Interest in associates		481,749	473,908
Interest in a joint venture		98,022	98,234
Goodwill		8,294	8,455
		<u>2,062,314</u>	<u>2,106,679</u>
Current assets			
Inventories		34,749	873
Trade and bills receivables	9	344,739	353,148
Debt instruments at FVTOCI		22,735	11,503
Prepayments, deposits and other receivables		110,118	96,599
Contract assets	10	424,343	383,875
Financial assets at fair value through profit or loss ("FVTPL")		—	33
Amount due from ultimate holding company	9	5,605	4,078
Amount due from fellow subsidiaries	9	341,953	274,937
Pledged bank deposits		12,351	18,998
Bank balances and cash		557,290	807,125
		<u>1,853,883</u>	<u>1,951,169</u>

	<i>NOTES</i>	<u>30/06/2020</u>	<u>31/12/2019</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Trade payables	12	295,312	334,951
Other payables, deposits received and accrued expenses		421,986	508,084
Contract liabilities		760,604	672,868
Amount due to ultimate holding company	12	1,606	1,153
Amount due to fellow subsidiaries	12	53,594	48,629
Deferred income - government grants		98,771	103,315
Tax liability		9,619	15,147
Lease liabilities		5,232	6,563
		<u>1,646,724</u>	<u>1,690,710</u>
Net current assets		<u>207,159</u>	<u>260,459</u>
Total assets less current liabilities		<u>2,269,473</u>	<u>2,367,138</u>
Non-current liabilities			
Deferred income - government grants		60,057	53,371
Deferred tax liabilities		218,347	230,989
Lease liabilities		2,126	4,633
		<u>280,530</u>	<u>288,993</u>
		<u>1,988,943</u>	<u>2,078,145</u>
Capital and reserves			
Share capital		11,389	11,389
Reserves		1,929,903	2,014,531
Equity attributable to owners of the Company		1,941,292	2,025,920
Non-controlling interests		47,651	52,225
Total equity		<u>1,988,943</u>	<u>2,078,145</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Other reserve	Special reserve	Share option reserve	Translation reserve	Revaluation reserve	Merger reverse	Retained profits	Subtotal		
	HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 income	—	—	—	—	—	2,169	13,164	—	—	15,333	3,777	19,110
Total comprehensive 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 June 2019	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
At 1 January 2020	11,389	1,561,333	(575,158)	92	66,659	(13,129)	127,789	(380,797)	1,227,742	2,025,920	52,225	2,078,145
Profit for the year	—	—	—	—	—	—	—	—	(49,112)	(49,112)	(3,792)	(52,904)
Other comprehensive (expense) income	—	—	—	—	—	(36,322)	—	—	—	(36,322)	(869)	(37,191)
Total comprehensive (expense) income for the year	—	—	—	—	—	(36,322)	—	—	(49,112)	(85,434)	(4,661)	(90,095)
Contribution by non-controlling interest	—	—	—	—	—	—	—	—	—	—	87	87
Recognition of equity-settled share-based payments	—	—	—	—	806	—	—	—	—	806	—	806
	—	—	—	—	806	(36,322)	—	—	(49,112)	(84,628)	(4,574)	(89,202)
At 30 June 2020	11,389	1,561,333	(575,158)	92	67,465	(49,451)	127,789	(380,797)	1,178,630	1,941,292	47,651	1,988,943

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)

	<u>30/06/2020</u>	<u>30/06/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH (USED IN) OPERATING ACTIVITIES	(164,098)	(108,921)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(71,967)	23,434
NET CASH FROM (USED IN) FINANCING ACTIVITIES	332	(22,127)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(235,733)	(107,614)
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE PERIOD	807,125	865,181
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(14,102)	605
CASH AND CASH EQUIVALENTS		
AT END OF THE YEAR		
BANK BALANCE AND CASH	<u>557,290</u>	<u>758,172</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

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 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39, HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

2.2 Impacts and accounting policies on application of Amendments to HKFRS 3 “Definition of a Business”

2.2.1 Accounting policies

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets underassessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

2.2.2 Transition and summary of effects

The amendments had no impact on the condensed consolidated financial statements of the Group.

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 2020			
	Cloud	Management	Internet of	
	services	software	things (IoT)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>225,591</u>	<u>803,927</u>	<u>135,862</u>	<u>1,165,380</u>
Segment profit	<u>(101,751)</u>	<u>39,498</u>	<u>1,588</u>	<u>(60,665)</u>
Unallocated other income, gains and losses, net				31,120
Change in fair value of investment properties				(8,440)
Share of profit of associates				10,385
Share of profit of a joint venture				1,676
Share-based payments				(806)
Unallocated administrative costs				(21,141)
Impairment losses, net of reversal				<u>(9,359)</u>
Profit before tax				<u>(57,230)</u>

3. REVENUE AND SEGMENT INFORMATION – CONTINUED

	Six months ended 30 June 2019			
	Cloud services	Management software	Internet of things (IoT) solution	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 profit 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

4. OTHER INCOME

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
Other income:		
Interest income on bank deposits	561	2,663
Interest income on financial assets at FVTPL	4,545	5,706
VAT refund	23,872	29,257
Government subsidies and grants	7,264	3,087
Rental income	30,786	29,746
Others	505	343
	<u>67,533</u>	<u>70,802</u>

5. INCOME TAX EXPENSES

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
Current tax:		
PRC EIT	753	3,867
Under provision in prior year		
PRC EIT	132	(2,068)
Deferred taxation	<u>(5,211)</u>	<u>(160)</u>
	<u>(4,326)</u>	<u>1,639</u>

6. PROFIT FOR THE PERIOD

	Six months ended	
	30/06/2020	30/06/2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Cost of inventories recognised as expense in cost of sales	118,041	166,384
Depreciation for property, plant and equipment	14,847	13,577
Amortisation for other intangible assets	2,759	1,873

7. DIVIDENDS

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2020(six months ended 30 June 2019: nil).

8. (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:

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

	<u>Six months ended</u>	
	<u>30/06/2020</u>	<u>30/06/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Earnings</u>		
(Loss) profit for the period attributable to the owners of the Company	<u>(49,112)</u>	<u>113,236</u>
	<u>Six months ended</u>	
	<u>30/06/2020</u>	<u>30/06/2019</u>
	<i>'000</i>	<i>'000</i>
<u>Number of shares</u>		
Number of ordinary shares for the purpose of basic earnings per share	1,138,921	1,138,921
Effect of dilutive potential ordinary shares arising from the outstanding share options	<u>7,193</u>	<u>20,281</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,146,114</u>	<u>1,159,202</u>

9. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 - 210 days to its trade customers.

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.

	<u>30/06/20</u>	<u>31/12/19</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	207,621	241,539
31-60 days	21,399	35,373
61-90 days	21,872	16,900
91-120 days	17,967	10,082
121-180 days	11,616	12,331
Over 180 days	64,264	36,923
	<u>344,739</u>	<u>353,148</u>

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.

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from fellow subsidiaries		
0-30 days	81,846	231,013
31-60 days	96,858	3,215
61-90 days	29,799	3,685
91-210 days	102,901	13,946
Over 210 days	30,549	23,078
	<u>341,953</u>	<u>274,937</u>

9. TRADE AND BILLS RECEIVABLES – CONTINUED

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from ultimate holding company		
0-30 days	1,491	2,151
31-60 days	1	1,168
61-90 days	118	21
Over 90 days	3,995	738
	<u>5,605</u>	<u>4,078</u>

10. CONTRACT ASSETS

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current-software development	<u>424,343</u>	<u>383,875</u>

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

	<u>Six months ended</u>	
	<u>30/06/2020</u>	<u>30/06/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment loss in respect of		
Trade receivables	6,124	7,138
Contract assets	3,141	9,349
Other receivables	94	1,576
	<u>9,359</u>	<u>18,063</u>

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 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

12. TRADE AND OTHER PAYABLES

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

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
0-30 days	176,074	193,862
31-60 days	14,658	19,797
61-90 days	5,323	14,195
Over 90 days	99,257	107,097
	<u>295,312</u>	<u>334,951</u>

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.

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to fellow subsidiaries		
0-30 days	19,182	23,453
31-60 days	8,752	841
61-90 days	415	2,306
Over 90 days	25,245	22,029
	<u>53,594</u>	<u>48,629</u>

12. TRADE AND OTHER PAYABLES – CONTINUED

	<u>30/06/2020</u>	<u>31/12/2019</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to ultimate holding company		
0-30 days	275	115
31-60 days	121	3
61-90 days	10	3
Over 90 days	1,200	1,032
	<u>1,606</u>	<u>1,153</u>

13. SHARE CAPITAL OF THE COMPANY

	<u>Number of shares</u>		<u>Share capital</u>	
	<u>30/06/2020</u>	<u>30/06/2019</u>	<u>30/06/2020</u>	<u>30/06/2019</u>
	<i>'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each:				
Authorised	<u>2,000,000</u>	<u>2,000,000</u>	<u>20,000</u>	<u>20,000</u>
At beginning of year	<u>1,138,921</u>	<u>1,138,921</u>	<u>11,389</u>	<u>11,389</u>
At end of year	<u>1,138,921</u>	<u>1,138,921</u>	<u>11,389</u>	<u>11,389</u>

14. 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:

	<i>Note</i>	Six months ended	
		30/06/2020	30/06/2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
Supply Transactions	(i)	55,890	35,602
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	424,610	372,962
(2) The related commission amount		4,244	3,719
Purchase Transactions	(iii)	22,708	19,032
Common Services Transactions	(iv)	6,335	5,794
Leasing Services Transactions	(v)	28,640	27,329

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.

On 27 February 2020, the Company entered into the Framework Financial Services Agreement with Inspur Finance, pursuant to which Inspur Finance agrees to provide several categories of financial services including Deposit Services, Loan Facility Services, Settlement Services, and Other Financial Services on a non-exclusive basis to the Group for a term of three years ending on 31 December 2022.

Further details of such continuing connected transaction were disclosed in the Company's announcement dated 27 February 2020 and circular dated 15 April 2020 (the "Circular").

According to the deposit service, the maximum daily deposit balance (including any accrued interest) deposited with Inspur Finance from the effective date of the framework financial service agreement to December 31, 2020, the recommended upper limit does not exceed RMB 500,000,000 yuan. The board of directors confirmed that as of 30 June 2020, the daily deposit balance of the Group in Inspur Finance (including any accrued interest) did not exceed the upper limit.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period ended 30 June 2020, our Group's revenue mainly came from business in China and settled in Renminbi, but devalued 4.8% due to the change of average translation currency rate presentation in HK dollar. Affected by the outbreak of COVID and unoptimistic economics environment, in the reporting period, our group revenue declined 16.2% and gross profit decreased 24.0% as compared with last corresponding period.

(1) Revenue

During the reporting period, the Group recorded a revenue of HK\$1,165,380,000 (2019: HK\$1,391,174,000) representing a decrease of 16.2% as compared with last year. Our revenue mainly came from our business in China and operated in Renminbi. The revenue if accounted in RMB represented 12.2% decrease comparatively. Among them, the revenue of cloud service business was HK\$225,591,000 (2019: HK\$ 160,569,000), recorded 40.5% growth (47.2% growth accounted in RMB) compared with last corresponding period, the revenue of cloud service business weighted 19.4% of total revenue and became new growth driven; the revenue of management software for the year was HK\$803,927,000 (2019: HK\$1,043,512,000), representing a decrease of 23.0% (19.3% decrease accounted in RMB) and the revenue of the Internet and of things (IoT) was HK\$135,862,000 (2019: HK\$187,093,000), representing 27.4% declining (23.9% declining accounted in RMB) as compared with last year, decrease mainly from the postponing order from large SOE.

(2) Gross profit

During the reporting period, gross profit of the Group was HK\$390,089,000 for the year (2019: HK\$513,160,000), representing a decrease of 24.0% as compared with last year. The Group's gross profit margin was 33.5% (2019: 36.9%). The decrease in gross profit margin was mainly due to intense market competition and declining gross profit margin in current EPR business.

(3) Administrative, R&D and selling & distribution expenses

During the reporting period, administration expenses amounted to HK\$167,911,000 (2019: HK\$178,554,000), representing a decrease of 6%. Although facing epidemic, the Group actively cut some administration expense and improved management efficiency.

During the reporting period, the research and development (R&D) expense was HK\$141,936,000 (2019: HK\$98,580,000) and increased 44% compared with last year, mainly due to aggressive inputs in the R&D of cloud service business and expanding R&D staff.

During the period, the selling and distribution expenses was HK\$197,795,000 (2019:HK\$198,051,000), almost the same as last period.

(4) Other income and other gains and losses

During the year, the other income and other gains and losses amounted to HK\$67,603,000 (2019: HK\$70,825,000) meaning 4.5% decrease as compared with last year mainly due to: 1) the bank interest income was HK\$5,106,000 (2019:HK\$8,369,000), representing about 39% decrease comparatively; 2) During the reporting period, because of the reduction of VAT tax rate, the refund from software VAT was reduced 18.4% to HK\$23,872,000 (2019: HK\$29,257,000); 3) Recognised government grants was increased 135.3% compared with the last year to HK\$7,264,000 (2019:HK\$3,087,000); 4) Rental income from investment properties was increased 3.5% compared with the last year to HK\$30,786,000 (2019:HK\$29,746,000).

(5) Investment income from associates and joint venture

During the reporting period, share of profit of associates was HK\$10,385,000 (2019:HK\$21,256,000) and reduced 51.1% compared with the last year because the profit of an associates dropped significantly as a results of the impact of economic environment, and production plan etc. During the period, share of the profit of a joint venture was reduced 13.2% to HK\$1,676,000 (2019: HK\$1,931,000) comparatively.

(6) (Loss) Profit before tax

During the period, loss before the tax was approximately HK\$57,230,000 (2019: profit HK\$113,321,000), recording a significant decline as compared with last year. Main reasons were: 1) Share of profit of associates reduced HK\$10,871,000 comparatively; 2) In the reporting periods, because of impact from epidemic and economic environment, several customers' management software was postponed to deliver, which resulted in operation profit of management software was declining 72.4% to HKD 39,498,000 (2019: HKD143,101) compared with corresponding period; 3) Cloud service business growth was stable but operating loss expanded 125.1% to loss of HKD101,751,000 (2019: loss of HKD45,197,000) comparatively.

(7) Income tax expenses

During the reporting period, the income tax write back to HK\$4,326,000 (2019: HK\$1,639,000) because of the profit decline.

(8) (Loss) profit for the year attributable to owners of the Company

During the reporting period, net loss attributable to owners of the Company for the year was approximately loss of HK\$49,112,000 (2019: net profit HK\$113,236,000), representing a significant decline year-on-year basis. Main reasons were: 1) in the period, as impact from epidemic and economic environment, the postponed delivery of our management software resulted in reducing segment profit of management software to HKD39,498,000 (2019: HKD143,101,000), about 72.4% decline compared with last period; 2) the loss of cloud business further expanded. The segment loss of cloud service business was HKD101,751,000 (2019: Loss of HKD45,197,000) and increased 125.1% comparatively.

Basic loss per share were 4.31 HK cents (2019: profit 9.94 HK cents) and diluted loss per share were 4.29 HK cents (2019: profit 9.77 HK cents).

(9) Financial resources and liquidity

As at 30 June 2020, equity attributable to owners of the Company amounted to HK\$1,941,292,000 (at 31 December 2019: HK\$2,025,920,000). Current assets amounted to HK\$1,853,883,000 of which HK\$557,290,000 were bank deposits and cash balances which were mainly denominated in Renminbi.

Current liabilities, including trade payables, other payables and accrued expenses amounted to HK\$1,646,724,000. The Group's current assets were around 1.13 times over its current liabilities (31 December 2019: 1.15times).

As at 30 June 2020 and 31 December 2019, 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 larger 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 2020, the Group had 5,432 employees. During the reporting period, total employees remuneration, including directors' remuneration and mandatory provident fund contributions amounted to approximately HK\$546,962,000.

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 2020, bank deposits in the amount approximately HK\$12,351,000 of the Group's assets was pledged (31 December 2019: HK\$18,998,000).

BUSINESS REVIEW

During the reporting period, the group leverages the leading edge and innovation mechanism of Inspur Cloud Data Intelligence's full-stack technology to create first-class platform products, accelerate SaaS operations, and focus on developing smart enterprise ecosystem and further transformation to Cloud business all based on the consolidating high-end. The Group cores on the Cloud ERP, drive the value growth and aims to help customers build future Cloud-enterprises.

During the reporting period, the Group speeds up building cloud platform products, accelerates in-depth development of industry cloud and segments cloud. The Group launched first domestic public grain SaaS product: Inspur Grain Enterprise Cloud. Facing to the human resource management market of growth enterprises, the Group launched brand new human resource SaaS products – HCM Cloud SE. During the reporting period, the Group deepened the key accounts management and signed contracts with Tianjin port, China Mobile, China-heavy truck, Guangxi State Farms, Beijing Energy, SAIC Motor, Hunan TV & Broadcast Intermediary, Guangzhou Sewage Purification etc. We are in the SaaS leaders' camp and rank No.3 according to the comprehensive competitiveness. Inspur GS keeps No.1 in group management software field in the market share and customer satisfaction. Through ranked as excellent industry internet APP solution, outstanding China intelligent manufacturing solution supplier and technology leadership award by Ministry of Industry and Information Technology, our brand and market influence are further improved.

During the reporting period, facing the sudden outbreak of COVID, the Group actively fulfilled the social responsibility, such as donation of 100,000 medical supplies, free open 8 cloud service, for example, HCM Cloud, iGO Cloud, Cloud Accounting etc, to help the enterprises' resumption of work and production and create cloud new energy.

1. Cloud Service Business

The Group provides comprehensive cloud services to enterprises in different scales and empowers Inspur partners and enterprises to enhance their core competitiveness in the cloud era. During the reporting period, our revenue from cloud services business recorded a rapid growth, amounted to HK\$225,591,000, representing 40.5% growth comparatively.

(1) Large enterprises market

During the reporting period, to serve the large enterprise market, the company continued to optimize the large enterprise digital platform GS Cloud. The company increased the product promotion such as financial cloud, human resource cloud, procurement cloud, collaborative cloud, treasury management cloud, travel cloud, tax management cloud, marketing cloud etc, and further speeded up the digital transformation of large enterprises.

During the reporting period, for landing the enterprise Middle-end strategy, through technology, business, data middle-end platform, it enhance the enterprise's digital ability, business ability and eco ability and encourage the enterprise's continuous digital innovation. At same time, Inspur iGIX keeps on exercising its designing idea "concise, agile, intelligent". The Group is aiming to create a complete ecosystem, not only as technical support for our ERP product line but also as complete application technical supporting platform for all secondary development and for enterprise information centers, partners and independent ISV, and aiming to create intelligent enterprise "platform + Eco".

During the reporting period, the company focused on customers' successful applications, continued in optimization HCM cloud products' iteration and improved customers' experience. In the period, the Group signed contracts with a series of large enterprises such as CIECC, China Gezhouba, Energy China, China Construction Second Engineering Bureau, Simcere, Orient Landscape, Zhongtian Group, CCEGC, Guangzhou Port, Tianjin port etc. Shown on the IDC and CCID research report for China HCM software market, Inspur HCM Cloud was listed in Top 3 in China Human resource software SaaS market and ranked No 1 in large-enterprises' market.

During the reporting period, in the product of Treasury Management Cloud, the company deepened the corporation with ICBC and published Treasury Management Cloud Essential Edition, which was more close to customer's needs. Essential Edition provided more standard and flexible product components to fulfil full coverage of clients' needs in different size and level and signed contract with Lixia Holding, Henglin Home Furnishing, Pengjian Group etc.

During the reporting period, the company's procurement cloud (iGo Cloud) continuously optimized its services and accelerated the iterative product research and development in order to create first-class domestic e-commerce cooperative eco platform.

(2) Growth enterprise market

During the reporting period, for the growth enterprise market, the group grasped the opportunity of new construction and industrial internet, through open source ERP product PS Cloud V2.5, to set up platform and ecosphere. The Group co-operated with our partners in the way of joint sale, delivery, consultation and micro-service etc and newly signed with industry leaders like Golden Grain, Kehui Technology, Lodoor etc. Through implementation of ERP, it helps the growing enterprises realize the integration and intelligence of accounting and operations and speed up the enterprises' cloud management transformation. The Group speeds up R&D of new product inSuite, which developed in advanced pure cloud architecture. The new product provides enterprise online SaaS subscription application service. It focuses on the key application of integration of accounting and operation, and lead enterprises from internal refinement to the innovation road of internationalization, internalization and up to digitalization.

(3) Small and micro enterprise market

During the reporting period, in the small and micro enterprise market, the company released the palm Yiyun APP, Inspur Yiyun Accounting professional version and inventory chain store version. All products newly added more value-added tools such as online taxation risk assessment, bulk tax filing, bank auto-reconciliation etc, and cooperated with a number of banks to provide intelligent one-stop invoice-finance-taxation service solutions to small and micro enterprises. During the reporting period, Inspur Yiyun got recognition from banks, partners and community, and got honours like “SME Financial SaaS Cloud Service Trustworthy Product” and many other awards.

2. Management Software Business

During the reporting period, industries and customers coverage of 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) and also technology advantage in block chain, AI and etc to continuously help our large enterprise group customers innovate in digital transformation and management. The revenue of management software reached HK\$803,927,000, with 23.0% decrease year-on-year basis.

The Group adhered to the domestic financial sharing hotspots, improved products’ applicability and intelligence. Through the whole process of external travel, reimbursement sharing and settlement, the product integrated with AI technology and support intelligence. Through Smart Audit Comprehensive Kanban, the shared task pool realized auto-intelligent selection process of preliminary review, audit, check, review. It built 7*24 unattended sharing centre and realized robot intelligent review and analysis. In the reporting period, finance-sharing centre project newly signed with Tianjin Port, Shandong Shuifa, China Heavy-truck, Simcere, Guangxi State Farm etc.

During the reporting period, the company continued to enrich totality intelligent manufacturing solution and improve product performance. Integrated product solution, which covers from workshop products equipment level, operation management level to business collaboration level, provided technical support to the manufacturing industry for its internet collaboration needs. Intelligent Manufacturing Solution, as embedded in industrial internet, is an important driving force in construction of enterprises' industrial internet. During the reporting period, the Group was selected as an intelligent manufacturing system solution supplier.

During the reporting period, the company built a one-stop enterprise big data platform. This platform is to provide agile integration tools from selection, storage, management to usage of data, to realize all business digitalization and all assets digitalization, and to build a whole field-level data asset centre. Through precipitating the general field experience integrating with industrial characteristics into module, this platform could provide the management decision-making support and innovation realized. During the reporting period, we newly signed with Tianjin Energy, Tianjin Port, Dongying Finance Bureau, Anhui Huaihai Industry, Shanghai Jianke and Sunshine Insurance. A project team of intelligent enterprise application led by Inspur was selected as “Excellent Project Team”.

During the reporting period, the telecom industry grasps the 5G rapid construction and four-wheel development opportunity. We actively built several smart operational support benchmark in Beijing Mobile, Shandong Telecom, Suzhou R&D Institution etc., deeply practice integration strategy of mid-end and cross domain. Based on the accumulation of O domain to the expansion of B & M domain, we launched business of operation and finance integration or cross domain big data integration for China Tower, Guangdong Mobile, China Mobile Information etc. And we also realized full business operation supporting case for SINOCEHM. Based on lightweight operation supporting platform to carry out vertical industry expansion, we provided smart operation supporting product and service to new operator like 中移智行 & 中移互聯網 to assist industry customers digital transformation.

3. Internet of Things (IoT) solutions

During the reporting period, Our Group's IoT business mainly covered the Grain and Telecom industry and realized revenue of HK\$135,862,000, representing 27.4% decrease comparatively.

Facing the grain and agriculture industry, the Group, through integration of resources of CN grain, optimization of production line and layout of smart agriculture market, provided total solution of smart grain and intelligent reserves to food and reserves management in different level and food enterprises and reserves warehouse in different kinds of scale, no matter large, medium, small and micro. In the period, the Group won the bids, such as Grain E-government provincial level network project of Shanghai Food and Strategic Reserves Administration, Smart Grain Procurement Upgrade (Grain-safety) project of Shuozhou, and several reserves' projects of National Food and Strategic Reverses Administration Shanxi Bureau, Gansu Bureau, Shandong Bureau. And also, we won the bids such as smart cotton warehouse construction projects of China reserves of Cotton, smart grain warehouse upgrade project in Jiujiang, Shangrao, Jian of Jiangxi province, smart food industry zone project of Guangdong Foshan Shunde, etc.

During the reporting period, Inspur Tianyuan Telecom grasped opportunity of telecom operators' focus on developing government enterprise affairs. We actively explored +5G industry application in vertical industry needs and application scenario. We built and optimized data platform products such as sharing platform, IoT platform, Wit-Eye Cloud platform, information operation platform etc.

Business Plan

In second half of 2020, the company will invest more in R&D of cloud ERP hard technology platform product, and released a new generation cloud product for large enterprise market and total new products for growth enterprise market. The Group strengthened SaaS product operation and digital marketing and significantly increased the proportion of cloud business revenue. Through strengthening planning consulting lead and deepening key customer management based on “cloud +data + AI” project, the Group consolidates the high-end market position. The Group will further promote the transformation from agency model to ecological cooperation model, enrich distribution product series, insist in “being integrated”, focus on development of delivery eco and consultation partners, and speed up building intelligent enterprises “Platform + Ecology”. In the future, relying on the parent company Inspur Group under its full coverage of IaaS-PaaS-SaaS and the influence of Inspur brand, the company will continuously create new technologies, new applications, new models, and assist 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 2020 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 2020 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 2020, the numbers of shares available for issue and remained outstanding under the option scheme are 37,060,000 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. Ding Xiangqian. 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 2020, 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. Due to epidemic situation, 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 2020.

By Order of the Board
Inspur International Limited
Chairman
Wang Xingshan

Hong Kong, 28 August 2020

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.