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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 2021**

The board of directors (the “**Board**”) of Inspur International Limited (the “**Company**”) presents the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2021 (the “**Unaudited Consolidated Results**”) together with the unaudited comparative figures for the corresponding period in 2020. The unaudited consolidated results have been reviewed by the Audit Committee of the Company:

Financial highlights for the six months ended 30 June 2021

- Turnover increased by 30.3% compared with the corresponding period in 2020 to HK\$1,518,139,000 (the corresponding period in 2020: HK\$1,165,380,000).
- Profit attributable to owners of the Company for the period was HK\$18,967,000 (the corresponding period in 2020: loss of HK\$49,112,000).
- Basic earnings per share attributable to owners of the Company for the period were HK1.67 cents (the corresponding period in 2020: loss of HK4.31 cents).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	NOTES	For the six months ended	
		30 June	30 June
		2021	2020
		HK\$'000	HK\$'000
Turnover	3	1,518,139	1,165,380
Cost of sales		(1,002,715)	(775,291)
Gross profit		515,424	390,089
Other income	4	120,694	67,533
Other gains and losses		(1,374)	70
Impairment losses		(8,294)	(9,359)
Administrative expenses		(167,467)	(167,911)
Research and development expenses		(190,654)	(141,936)
Selling and distribution expenses		(247,678)	(197,795)
Financial costs		(239)	(1,542)
Change in fair value of investment properties		(10,332)	(8,440)
Share of profit of associates		10,882	10,385
Share of profit of a joint venture		1,229	1,676
Profit (loss) before tax		22,191	(57,230)
Income tax expenses	5	(2,524)	4,326
Profit (loss) for the period	6	19,667	(52,904)
Profit (loss) for the period attributable to owners of the Company		18,967	(49,112)
Profit (loss) for the period attributable to non- controlling interests		700	(3,792)
Earnings (loss) per share			
– Basic (HK cents)	8	1.67	(4.31)
– Diluted (HK cents)		1.66	(4.29)

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

	<u>For the six months ended</u>	
	30 June	30 June
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the period	19,667	(52,904)
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	—	—
Share of other comprehensive income (expense) of associates and a joint venture	2,567	(11,052)
Exchange differences arising on translation to presentation currency	52,831	(26,139)
	75,065	(90,095)
Total comprehensive income (loss) for the period	<u>75,065</u>	<u>(90,095)</u>
Total comprehensive income (loss) for the period attributable to:		
– Owners of the Company	73,820	(85,434)
– Non-controlling interests	1,245	(4,661)
	<u>75,065</u>	<u>(90,095)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		30 June	31 December
	<i>NOTES</i>	2021	2020
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		414,344	395,933
Investment properties		979,981	989,636
Right-of-use assets		70,544	72,518
Other intangible assets		58,877	65,953
Equity instrument at FVTOCI		23,341	23,036
Interest in associates		286,591	372,434
Interest in a joint venture		107,941	105,318
		1,941,619	2,024,828
Current assets			
Inventories		1,302	1,239
Trade and bills receivables	9	415,070	375,057
Debt instruments at FVTOCI		13,223	4,836
Prepayments, deposits and other receivables		148,293	113,154
Contract assets	10	460,688	355,371
Amount due from ultimate holding company	9	9,060	1,982
Amount due from fellow subsidiaries	9	412,825	226,641
Pledged bank deposits		10,978	21,489
Bank balances and cash		1,077,000	1,033,672
		2,548,439	2,133,441

		30 June 2021 <i>HK\$'000</i>	31 December 2020 <i>HK\$'000</i>
	<i>NOTES</i>		
Current liabilities			
Trade payables	12	266,486	238,957
Other payables, deposits received and accrued expenses		588,206	506,032
Contract liabilities	10	1,008,571	878,960
Amount due to ultimate holding company	12	1,537	1,219
Amount due to fellow subsidiaries	12	77,717	48,576
Deferred income - government grants		72,269	56,408
Tax payable		19,512	20,896
Lease liabilities		10,009	11,560
Estimated liabilities		36,629	36,152
		<u>2,080,936</u>	<u>1,798,760</u>
Net current assets		<u>467,503</u>	<u>334,681</u>
Total assets less current liabilities		<u>2,409,122</u>	<u>2,359,509</u>
Non-current liabilities			
Deferred income - government grants		79,684	95,717
Deferred tax liabilities		234,036	243,888
Lease liabilities		9,357	9,478
		<u>323,077</u>	<u>349,083</u>
		<u>2,086,045</u>	<u>2,010,426</u>
Capital and reserves			
Share capital		11,389	11,389
Reserves		<u>2,027,079</u>	<u>1,952,705</u>
Equity attributable to owners of the Company		2,038,468	1,964,094
Non-controlling interests		<u>47,577</u>	<u>46,332</u>
Total equity		<u>2,086,045</u>	<u>2,010,426</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY(UNAUDITED)

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Other reserves	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
On 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 period	—	—	—	—	—	—	—	—	(49,112)	(49,112)	(3,792)	(52,904)
Other comprehensive income (expense)	—	—	—	—	—	(36,322)	—	—	—	(36,322)	(869)	(37,191)
Total comprehensive income (expense) for the period	—	—	—	—	—	(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
On 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
On 1 January 2021	11,389	1,561,333	(572,871)	92	60,406	95,094	117,296	(380,797)	1,072,152	1,964,094	46,332	2,010,426
Profit for the period	—	—	—	—	—	—	—	—	18,967	18,967	700	19,667
Other comprehensive income (expense)	—	—	—	—	—	54,853	—	—	—	54,853	545	55,398
Total comprehensive income (expense) for the period	—	—	—	—	—	54,853	—	—	18,967	73,820	1,245	75,065
Recognition of equity-settled share-based payments	—	—	—	—	554	—	—	—	—	554	—	554
On 30 June 2021	11,389	1,561,333	(572,871)	92	60,960	149,947	117,296	(380,797)	1,091,119	2,038,468	47,577	2,086,045

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 June	30 June
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS (USED IN) OPERATING ACTIVITIES	(49,224)	(164,098)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES	70,805	(71,967)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES	—	332
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,581	(235,733)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,033,672	807,125
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	21,747	(14,102)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
BANK BALANCE AND CASH	<u>1,077,000</u>	<u>557,290</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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**”). The directors of the Company consider that Inspur Overseas Investment Limited (“**Inspur Overseas**”), a company incorporated in the British Virgin Islands and Inspur Group Limited (“**Inspur Group**”), 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 Interim 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 engaged in enterprise management software, cloud services business and Internet of Things (IoT) solutions.

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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

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:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 1	Interest Rate Benchmark Reform – Phase 2

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.

3. REVENUE AND SEGMENT INFORMATION

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

	For the six months ended 30 June 2021			
	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	<u>319,623</u>	<u>1,021,137</u>	<u>177,379</u>	<u>1,518,139</u>
Segment profit	<u>(98,084)</u>	<u>110,546</u>	<u>5,600</u>	<u>18,062</u>
Unallocated other income, gains				33,662
Change in fair value of investment properties				(10,332)
Share of profit of associates				10,882
Share of profit of a joint venture				1,229
Share-based payments				—
Unallocated administrative costs				(23,018)
Impairment losses				<u>(8,294)</u>
Profit before tax				<u>22,191</u>

3. REVENUE AND SEGMENT INFORMATION – CONTINUED

	For the six months ended 30 June 2020			
	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	225,591	803,927	135,862	1,165,380
Segment profit	(101,751)	39,498	1,588	(60,665)
Unallocated other income, gains				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				(9,359)
Profit before tax				(57,230)

4. OTHER INCOME

	For the six months ended	
	30 June 2021	30 June 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income:		
Interest income on bank deposits	3,575	561
Interest income on financial assets at FVTPL	3,644	4,545
Value Added Tax (VAT) refund	28,147	23,872
Government grants	48,654	7,264
Rental income	33,962	30,786
Others	2,712	505
	120,694	67,533

5. INCOME TAX EXPENSES

	For the six months ended	
	30 June 2021	30 June 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
PRC Enterprise Income Tax (EIT)	3,552	753
Under provision in prior year:		
PRC Enterprise Income Tax (EIT)	(417)	132
Deferred tax	(611)	(5,211)
	2,524	(4,326)

6. ROFIT FOR THE PERIOD

	For the six months ended	
	30 June 2021	30 June 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as cost of sales	155,031	118,041
Depreciation for property, plant and equipment	28,140	23,316
Amortisation for other intangible assets	7,947	2,759

7. DIVIDENDS

The Board of directors does not recommend the payment of any dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the profit (loss) for the period 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>For the six months ended</u>	
	<u>30 June 2021</u>	<u>30 June 2020</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Earnings</u>		
Profit (loss) for the period attributable to the owners of the Company	<u>18,967</u>	<u>(49,112)</u>
	<u>For the six months ended</u>	
	<u>30 June 2021</u>	<u>30 June 2020</u>
	<i>'000</i>	<i>'000</i>
<u>Number of shares</u>		
Number of ordinary shares used in basic earnings per share	1,138,921	1,138,921
Effect of dilutive potential ordinary shares arising from the outstanding share options	<u>4,313</u>	<u>7,193</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>1,143,234</u>	<u>1,146,114</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 aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximated the revenue recognition date.

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	219,855	230,694
31-60 days	33,127	25,420
61-90 days	32,187	50,805
91-120 days	26,029	20,204
121-180 days	28,910	5,185
Over 180 days	74,962	42,749
	415,070	375,057

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

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from fellow subsidiaries		
0-30 days	85,293	114,488
31-60 days	16,109	16,176
61-90 days	182,194	17,981
91-210 days	88,182	29,336
Over 210 days	41,047	48,660
	412,825	226,641

9. TRADE AND BILLS RECEIVABLES – CONTINUED

	30 June 2021	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from ultimate holding company		
0-30 days	4,165	1,389
31-60 days	2,788	444
61-90 days	839	—
Over 90 days	1,268	149
	<u>9,060</u>	<u>1,982</u>

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

	30 June 2021	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
CONTRACT ASSETS		
Current-software development	<u>460,688</u>	<u>355,371</u>
CONTRACT LIABILITIES		
Current-software development	<u>(1,008,571)</u>	<u>(878,960)</u>

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

	For the six months ended	
	30 June 2021	30 June 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment loss in respect of		
Trade receivables	8,294	6,124
Contract assets	—	3,141
Other receivables	—	94
	<u>8,294</u>	<u>9,359</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 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

12. TRADE AND OTHER PAYABLES

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

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
0-30 days	145,122	57,577
31-60 days	16,608	20,189
61-90 days	16,011	7,729
Over 90 days	88,745	153,462
	266,486	238,957

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

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to fellow subsidiaries		
0-30 days	55,563	10,513
31-60 days	632	2,087
61-90 days	614	1,179
Over 90 days	20,908	34,797
	77,717	48,576

12. TRADE AND OTHER PAYABLES – CONTINUED

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to ultimate holding company		
0-30 days	392	60
31-60 days	33	103
61-90 days	21	—
Over 90 days	1,091	1,056
	1,537	1,219

13. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
	<i>'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each:				
Authorised	2,000,000	2,000,000	20,000	20,000
At beginning of period	1,138,921	1,138,921	11,389	11,389
At end of period	1,138,921	1,138,921	11,389	11,389

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>	For six months ended	
		30 June 2021	30 June 2020
		<i>HK\$'000</i>	<i>HK\$'000</i>
Supply Transactions	(i)	70,225	55,890
Selling Agency transactions			
(1) Accumulated transactions amount	(ii)	456,351	424,610
(2) Related commission amount		4,482	4,244
Purchase Transactions	(iii)	4,832	22,708
Common Services Transactions	(iv)	3,592	6,335
Leasing Services Transactions	(v)	34,019	28,640

Notes:

- (i) The Group supplied goods for Inspur Group with reference to the market price.
- (ii) The Group engaged Inspur Group as the sales agent for the Group's products and services and Inspur Group received a commission of not more than 1% of the total sales value of the products and services.
- (iii) The Group would purchase computer software and hardware products from the Inspur Group. The unit price of computer products and components to be supplied by the Inspur Group would be agreed between parties with reference to the then prevailing market prices of such products at the relevant time.
- (iv) Inspur Group would provide services to the Group in relation to the use of the property on normal commercial terms and on arm's length terms or on terms no less favourable to the Group than those for provision of similar services by Inspur Group to other parties or by other parties to the Group.
- (v) The Group would provide leasing services (leasing services) for the Group's property to Inspur Group at rates negotiated on normal commercial terms and on arm's length terms or on terms no less favourable than those for provision of similar services to other parties.

14. RELATED PARTY TRANSACTIONS/BALANCES – CONTINUED

On 27 February 2020, the Company entered into the Framework Financial Services Agreement with Inspur Group Finance Limited (Hereinafter referred to as “**Inspur Finance Company**”), pursuant to which Inspur Finance Company 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.

Details of such major 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 Company from the effective date of the framework financial service agreement to 31 December 2022, the recommended upper limit does not exceed RMB 500,000,000. The board of directors confirmed that as of 30 June 2021, the daily deposit balance of the Group in Inspur Finance Company (including any accrued interest) did not exceed the upper limit.

Management Discussion and Analysis

Financial Review

As of 30 June 2021, the Group's revenue was mainly derived from its business in the PRC with the functional currency of Renminbi (RMB). During the reporting period, the average exchange rate of the reporting currency in Hong Kong dollars appreciated by 8% and the Group's revenue increased by 30.27% and gross profit increased by 32.13% compared with the corresponding period last year.

(1) Turnover

During the reporting period, the Group recorded a turnover of HK\$1,518,139,000, representing an increase of 30.27% compared with the corresponding period last year (the corresponding period in 2020: HK\$1,165,380,000). The Group's revenue was mainly derived from its RMB-denominated business in China, representing a growth rate of 19.85% in RMB. Revenue from the cloud services business amounted to HK\$319,623,000, representing an increase of 41.68% compared with the corresponding period last year (the corresponding period in 2020: HK\$225,591,000) and a growth rate of 30.35% in RMB, and revenue from cloud services business accounted for 21.05% of the Group's turnover and was the driving force behind the Company's revenue growth; Revenue from the management software business amounted to HK\$1,021,137,000, representing an increase of 27.02% compared with the corresponding period last year (the corresponding period in 2020: HK\$803,927,000) and a growth rate of 16.86% in RMB; Revenue from the Internet of Things (IoT) solutions business amounted to HK\$177,379,000, representing an increase of 30.56% compared with the corresponding period last year (the corresponding period in 2020: HK\$135,862,000) and a growth rate of 20.12% in RMB.

(2) Gross profit

During the reporting period, gross profit from operating activities was HK\$515,424,000, representing an increase of 32.13% compared with the corresponding period last year (the corresponding period in 2020: HK\$390,089,000) and a growth rate of 21.65% in RMB. The overall gross profit margin was 33.95%, representing a steady increase compared with the corresponding period last year (the corresponding period in 2020: 33.50%).

(3) Administrative expenses, research and development expenses and selling expenses

During the reporting period, administrative expenses amounted to HK\$167,467,000, representing a decrease of 0.26% compared with the corresponding period last year (the corresponding period in 2020: HK\$167,911,000) and a decrease of 8.24% in RMB compared with the corresponding period last year, mainly due to the Company's active efforts to compress various administrative expenses and enhance management efficiency.

During the reporting period, research and development expenses amounted to HK\$190,654,000, representing an increase of 34.32% compared with the corresponding period last year (the corresponding period in 2020: HK\$141,936,000) and a growth rate of 23.58% in RMB, mainly due to the increase in investment in research and development for the cloud services business and the expansion of the Company's research and development staff.

During the reporting period, selling and distribution expenses amounted to HK\$247,678,000, representing an increase of 25.22% compared with the corresponding period last year (the corresponding period in 2020: HK\$197,795,000) and a growth rate of 15.21% in RMB, mainly due to the increase in scale of sales.

(4) Other income from operating activities, other net income

During the reporting period, other income, other net income amounted to HK\$119,320,000, representing an increase of 76.50% compared with the corresponding period last year (the corresponding period in 2020: HK\$67,603,000) and a growth rate of 62.39% in RMB. This was mainly attributable to: 1) software tax refund of HK\$28,147,000, representing an increase of 17.91% compared with the corresponding period last year (the corresponding period in 2020: HK\$23,872,000); 2) government grants of HK\$48,654,000, representing an increase of 569.80% compared with the corresponding period last year (the corresponding period in 2020: HK\$7,264,000); 3) rental income from investment properties of HK\$33,962,000, representing an increase of 10.32% compared with the corresponding period last year (the corresponding period in 2020: HK\$30,786,000).

(5) Investment income from associates and joint ventures

During the reporting period, investment income from associates amounted to HK\$10,882,000, representing an increase of 4.79% compared with the corresponding period last year (the corresponding period in 2020: HK\$10,385,000) and a decrease of 3.59% in RMB compared with the corresponding period last year. During the reporting period, investment income from joint ventures amounted to HK\$1,229,000, representing a decrease of 26.67% compared with the corresponding period last year (the corresponding period in 2020: HK\$1,676,000).

(6) Profit (loss) before taxation

During the reporting period, the Company recorded a profit before taxation of HK\$22,191,000 (the corresponding period in 2020: loss of HK\$57,230,000), mainly due to operating profit of HK\$110,546,000 from the management software business, representing an increase of 179.88% compared with the corresponding period last year (the corresponding period in 2020: HK\$39,498,000).

(7) Profit (loss) attributable to owners of the Company

During the reporting period, profit attributable to owners of the Company amounted to HK\$18,967,000 (the corresponding period in 2020: loss of HK\$49,112,000), representing a substantial increase in profit for the reporting period, which was mainly attributable to operating profit from management software business which amounted to HK\$110,546,000, representing an increase of 179.88% compared with the corresponding period last year (the corresponding period in 2020: HK\$39,498,000).

Basic earnings per share were HK1.67 cents (the corresponding period in 2020: loss of HK4.31 cents) and diluted earnings per share were HK1.66 cents (the corresponding period in 2020: loss of HK4.29 cents).

(8) Financial Resources and Liquidity

As at 30 June 2021, current assets amounted to HK\$2,548,439,000, of which mainly consisted of bank deposits and cash balances of HK\$1,077,000,000, mainly deposits in RMB.

Current liabilities amounted to HK\$2,080,936,000 and mainly comprised trade payables, other payables and accrued expenses. The Group's current assets were 1.22 times (31 December 2020: 1.19 times) of its current liabilities.

The Group has no bank borrowings.

Foreign exchange risk

The Group's purchases and sales are mainly denominated in RMB and US\$. The Group does not use any derivative instruments to hedge its currency exposure. The Group is currently in a strong financial position and will be able to meet its foreign exchange liabilities as they fall due. The Group's functional currency is RMB and the statements adopt Hong Kong dollars as the presentation currency. The impact of the translation of RMB into Hong Kong dollars during the reporting period has resulted in the information presented in the statements changing more than the actual changes in operating activities.

Employee Information

As of 30 June 2021, the Group had 5,838 employees. During the reporting period, total staff remuneration (including directors' remuneration and Mandatory Provident Fund contributions) under operating activities amounted to HK\$588,957,000.

In accordance with the Group's remuneration policy, employees are remunerated based on their performance and competence, and incentives and options are granted to eligible employees. In addition, the Group provides a mandatory provident fund scheme and a medical protection scheme to all employees, and the Company also provides continuing education and training to its employees to continuously upgrade their skills.

Charges of assets

As of 30 June 2021, the Group's bank deposits of HK\$10,978,000 (31 December 2020: HK\$21,489,000) were pledged for the purpose of tendering.

Business Review

During the reporting period, the Group leveraged its leading edge in cloud computing, big data, artificial intelligence and other full-stack technologies, implemented innovation-driven development strategies, broke through core technologies, accelerated the creation of first-class platform products and SaaS services, and focused on developing a smart enterprise ecosystem with Inspur Cloud ERP as the core, further accelerating the transformation to cloud and promoting the Group's high-quality development on the basis of continuously expanding its high-end advantages.

During the reporting period, the Group released Inspur iGIX 3.5, a new generation of enterprise PaaS platform, to upgrade its product ecological capabilities comprehensively, and launched a series of new versions of products such as Inspur GS Cloud, a digital platform for large enterprises, and Inspur inSuite, a new generation of open source cloud ERP for growing enterprises. At the same time, the Group continued to deepen its business with large customers, led by consultation planning, and signed contracts with large customers of central enterprises such as Sinograin (中國儲備糧), Dongfang Electric (東方電氣) and China Railway Hi-Tech Industry (中鐵工業). During the reporting period, catching up on the hot spots of digital transformation of enterprises, the Group also released a white paper on the digital transformation of group enterprises, growing enterprises, finance and human resources, and a white paper on the digital transformation of grain and port industries, in conjunction with third-party organisations such as the China Association of Chief Financial Officers (中國總會計師協會), to help build smart enterprises and further enhance its brand and market influence.

I. Cloud Services Business

The Group provides comprehensive cloud services to enterprises of different sizes, strengthening and expanding the ecosystem construction, empowering Inspur partners and customers, and enhancing its core competitiveness in the cloud era. During the reporting period, the cloud services business achieved a rapid growth in revenue, recording HK\$319,623,000, representing an increase of 41.68% compared with the corresponding period last year (the corresponding period in 2020: HK\$225,591,000).

(1) Large enterprises market

During the reporting period, for the large enterprise market, the Group continued to optimize the GS Cloud, the digitalization platform for large enterprises, and released GS Cloud version 2103 in March 2021. Catching up on the hot spots of digital transformation and technology upgrade of large conglomerates, the Group will capitalise on the advantages of the new generation of information technology and, based on rich application practices, integrate information, scenarios and AI, and apply technologies such as intelligent prediction, voice interaction, OCR and RPA to enhance the digital and intelligent experience of financial cloud, human resources cloud, procurement cloud, collaboration cloud, treasury management cloud, travel cloud and tax management cloud to accelerate the digital transformation of large enterprises. During the reporting period, Inspur won the “No. 1 User Satisfaction” award at the IT User Satisfaction Conference organised by CCW Research (計世資訊).

During the reporting period, the Group continued to optimize a new generation of iterative enterprise PaaS platform, Inspur iGIX, and officially released iGIX3.5 version, which further enhances the three features of “cloud-native, low-code and intelligent”, helping large enterprises to build an independent and controllable digital transformation platform, improving the digital capability, business capability and ecological capability of enterprises. On January 26th, UBML, a low-code modeling system of Inspur, was officially opened to the public, joining hands with universities, partners, ISV and community participants to build an open source ecosystem, further consolidating the image of Inspur iGIX as a leading and open technology. According to research report by CCW Research (計世資訊), Inspur iGIX has been the No. 1 in the domestic aPaaS market for two consecutive years.

During the reporting period, the Group continued to optimize the iterative HCM Cloud products and improve user experience with customer focus, signing contracts with a series of large and medium-sized enterprises such as Sichuan Coal (四川煤炭), Sichuan Tobacco Industry (四川煙草工業) and Anyang Iron and Steel (安陽鋼鐵). According to the latest “PRC Public Cloud Human Capital Management (HCM) SaaS Market Tracking Report for the Second Half of 2020” released by International Data Corporation (IDC), Inspur HCM Cloud ranked third in the HCM SaaS market in PRC.

During the reporting period, the Group further strengthened cooperation with ICBC (工商銀行), Minsheng Bank (民生銀行) and other financial institutions in treasury cloud, fully utilising the advantages of Inspur in the integration of finance, capital, online reporting and travel services, etc. The Group continued to expand its cooperation with banks, extending the cooperation on single product of capital to multiple business scenarios such as travel, online reporting, finance and budgeting, and jointly constructing an integrated treasury management service platform for enterprises and institutions. In addition, the Group have been actively working with ICBC and Minsheng Bank to innovate a new channel marketing model, which has resulted in significant market expansion and rapid business growth.

During the reporting period, the Group further upgraded the Collaboration Cloud, integrating information portal and collaboration office to create a digital collaboration platform, providing users with collaboration capabilities covering “all employees, all ends and all domains” and satisfying customers’ demand for “integrated, low-code, modular, on-demand customisation and quick build”. During the reporting period, we signed contracts with enterprises such as Dongfang Electric (東方電氣), Sichuan Coal Group (川煤集團), Tianjin Energy (天津能源) and Henan Jiaotou (河南交投).

(2) Growing Enterprises Market

During the reporting period, the Group accelerated the development of inSuite, a new generation open source cloud ERP product for growing enterprises, with the release of inSuite1.2 version. Adopting a cloud-native architecture and focusing on data-driven business capabilities, inSuite provides online services around six business scenarios: solutions, applications, implementation, interfaces, development and services, and provides a low-code development platform to bring together a wide range of partners and development enthusiasts to build a growing enterprise cloud community and meet the digital needs of enterprises throughout their lifecycle. The Group will also develop channel partners, further open up our products and markets, build a common interest group and strengthen “platform + ecology” aggregation capability.

(3) Small and Micro Enterprises Market

During the reporting period, the Group advanced the development of new versions of Inspur Cloud Accounting and Cloud Inventory for the small and micro enterprises market, and developed special features such as smart invoicing, cloud coins and smart accounting, actively promoted batch one-click tax filing for all tax types for key municipalities nationwide, and strengthened ecological cooperation, reaching strategic cooperation with Jinshan WPS (金山WPS) and eSign (e簽寶).

II. Management Software Business

During the reporting period, the Group's management software business further expanded in terms of industry coverage and customer base. The Group leveraged its product strengths in the areas of financial sharing, smart manufacturing, enterprise big data and network operation support system (OSS), as well as its technological strengths in block chain and artificial intelligence, to continue to drive management innovation and digital transformation for large enterprise customers, with income of HK\$1,021,137,000 recorded, representing an increase of 27.02% compared with the corresponding period last year (the corresponding period in 2020: HK\$803,927,000).

The Group continued to consolidate its leading position in the field of financial sharing by leading the digital transformation through financial sharing. During the reporting period, Inspur Finance Sharing leveraged RPA, OCR, natural language processing, knowledge mapping and machine learning technologies to create new intelligent financial solutions in terms of “manual capability, perceptive capability and cognitive capability”, covering intelligent financial applications in various fields such as shared accounting, financial accounting, fund management, tax management and report management. During the reporting period, the company signed new contracts with customers such as Zhejiang Guoyun (浙江國運), Henan Sunho (河南神火) and Tongling Nonferrous (銅陵有色), and won awards such as “Most Trusted Financial Intelligent Transformation Service Provider” by China CFO 2021, “New Generation Information Technology Innovation Product” by CCID, “Outstanding Project” by 2021 Leading Technology Achievement, and “No. 1 Product Satisfaction” by 2020 IT User Satisfaction Conference.

During the reporting period, the Group further developed its manufacturing execution management system, manufacturing IOT platform and other products based on the new generation of “cloud, edge and end” intelligent manufacturing technology framework, and formally launched the “Smart Manufacturing+” total solutions for intelligent manufacturing, covering core areas such as digital supply chain, production and manufacturing, quality management, smart factory and edge intelligence, and launched in-depth promotion and application in large equipment manufacturing enterprises for ships and shield machines. During the reporting period, a number of exemplary smart manufacturing industries were established, with customers such as “China Railway High-Tech Industry Corporation Limited (中鐵高新工業股份有限公司)” and “Shandong Juneng Holdings Group Limited (山東巨能控股集團有限公司)” winning the “2020 China Manufacturing Industry Outstanding CIO” award, and “Shandong Huajian Aluminium Group Limited (山東華建鋁業集團有限公司)” winning the “2020 Smart Manufacturing Best Practice and Outstanding Application Award”.

During the reporting period, Inspur Tianyuan Communications seized the opportunity of network business upgrade and transformation, and continued to build, upgrade and release the new Yunrui iOSS 2.0 series products, targeting at operators' 5G and cloud-network convergence business, to achieve end-to-end, automated, intelligent and agile support for network operation and maintenance operations in the whole domain. In advantaged provinces, the core O-domain business, such as intelligent operation and maintenance and network center, was rapidly implemented. The Group will also continue to promote cross-domain businesses such as B-domain and M-domain, and achieve breakthroughs in the convergence of industry and finance, PaaS platform and data center products for multiple customers. For core new industry operators, the Group have successfully implemented a territory-wide operation support business layout and expanded our business to other industry new industry operators such as Radio and Television (廣電), Tower Company (鐵塔公司), CMCC Zhihang (中移智行) and CMCC Internet (中移互聯網), providing customers with intelligent operation support products and services and helping industry customers transform digitally.

III. Internet of Things (IoT) Solutions Business

During the reporting period, the Group's Internet of Things solutions business, which mainly covers the food industry and the telecommunications industry, achieved revenue of HK\$177,379,000, representing an increase of 30.56% compared with the corresponding period last year(the corresponding period in 2020: HK\$135,862,000).

For the food and agriculture industry, the Group has integrated the resources of its holding company CNgrain, optimised its product lines and expanded into the smart agriculture and smart storage markets, providing smart food and smart storage solutions to food and material reserve authorities at all levels, emergency management departments and grain-related enterprises, material reserves and storage logistics parks of different scales, large, medium and small. During the reporting period, Inspur Smart Food received the Top 30 Award for the "Seed Project" typical case of 2020 Smart Agriculture. During the reporting period, the Group signed contracts for the Qinghai Cereals Modern Logistics Integrated Platform Project, Xinyu Modern Cereals Industrial Park Project, Jining Jiangbei Modern Cereals Logistics Park Intelligent Project, China National Reserve Grain Management Group Limited One Card Operation and Maintenance Project, and Zhejiang Yongkang Local Municipal Grain Warehouse Intelligent Upgrade Project.

During the reporting period, the Group grasped the demand for cloud data centre and operation and maintenance services brought about by the cloudisation of networks, and provided the whole life cycle of cloud network services, including preliminary consultation, planning and design, pre-production and delivery, verification and energy saving, and integrated operation and maintenance, helping operators to build a new generation of cloud network infrastructure. The Group also works with industry partners to build an ecological system, helping operators to develop their government and enterprise business, and to expand the DCS market continuously by leveraging Inspur's strengths in cloud computing, big data and artificial intelligence, as well as its partners' strengths in industry applications.

Business Planning

In the second half of 2021, the Group, as a leading enterprise management software and cloud services provider in China, will further increase its investment in research and development, build superior quality cloud ERP products, upgrade and iterate on cloud products for large and growing enterprises, and provide comprehensive digital solutions and digital transformation services for various enterprises. At the same time, the Group will continue to strengthen the operation of SaaS products and digital marketing to increase the revenue share of cloud business, continue to strengthen the leadership of planning and consulting, deepen the operation of large customers, and consolidate our high-end market position; adhere to the “platform + ecology” partnership management concept to increase market coverage. In the future, relying on the brand influence of Inspur, we will continue to build new technologies, new applications and new models, promote the digital and intelligent transformation of enterprises with first-class products and services, create value for customers and partners, and grow together with Chinese enterprises.

Purchase, sale or redemption of shares

During the reporting period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s shares.

Competitive interests

During the reporting period, none of the Directors, Chief Executive Officers, substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete with the business of the Group.

Share Option Scheme

The Company adopted a new share option scheme on 23 November 2018. At the end of the reporting period, the number of shares available for issue and outstanding under the share option scheme was 26.92 million shares.

Audit Committee

The Company has established an audit committee in accordance with the written terms of reference of the Listing Rules. The Audit Committee is primarily responsible for reviewing and supervising the Group’s financial reporting process and internal control system. The Audit Committee comprises three independent non-executive directors, namely 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 this report and has provided its recommendations and opinion thereon.

Code of Corporate Governance Practices

As of 30 June 2021, the Group has complied with the Code Provisions on Corporate Governance Practices (the “**Code**”) as set out in Appendix 14 to the Listing Rules for Main Board, except for the following deviations:

- (i) Code Provision A.6.7 requires the independent non-executive directors and other non-executive directors to attend the Annual General Meeting (AGM) and to have a fair understanding of the views of the shareholders. Due to the impact of the pandemic, some of the independent non-executive directors were unable to attend the AGM due to their official duties. The Company will schedule future meetings as appropriate to comply with Code Provision A.6.7.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in relation to Securities Transactions by Directors (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules for Main Board. Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2021.

By Order of the Board
Inspur International Limited
Wang Xingshan
Chairman

Hong Kong, 31 August 2021

As at the date of this announcement, the Board comprised Mr. Wang Xingshan, Mr. Wang Yusen and Mr. Jin Xiaozhou, Joe as executive Directors; Mr. Dong Hailong as non-executive Director and Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Mr. Ding Xiangqian as independent non-executive Directors.