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浪潮國際有限公司*

INSPUR INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8141)

Interim Report 2006



* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Inspur International Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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 three months and six months ended 30 June 2006 together with comparative unaudited figures for the corresponding period in 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	2	149,110	171,384	280,189	327,226
Cost of sales		(150,486)	(159,980)	(281,636)	(306,958)
Gross (loss) profit		(1,376)	11,404	(1,447)	20,268
Other income		1,266	112	1,479	149
Administrative expenses		(2,901)	(3,446)	(4,812)	(5,337)
Interest expenses		(3,137)	—	(4,892)	—
Share of profit less loss of associates		1,179	1,042	1,801	1,042
(Loss) profit before taxation	4	(4,969)	9,112	(7,871)	16,122
Taxation	5	(376)	(1,897)	(376)	(3,122)
Net (loss) profit for the period		<u>(5,345)</u>	<u>7,215</u>	<u>(8,247)</u>	<u>13,000</u>
Attributable to:					
Equity holders of the Company		(5,349)	7,215	(8,251)	13,000
Minority interests		4	—	4	—
		<u>(5,345)</u>	<u>7,215</u>	<u>(8,247)</u>	<u>13,000</u>
(Loss) earnings per share	6				
Basic		<u>(1.05) cents</u>	<u>1.68 cents</u>	<u>(1.65) cents</u>	<u>3.13 cents</u>
Diluted		<u>N/A</u>	<u>1.55 cents</u>	<u>N/A</u>	<u>2.91 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		751	603
Interests in associates	8	61,681	21,602
		<u>62,432</u>	<u>22,205</u>
Current assets			
Inventories		29,758	88,126
Trade receivables	9	389	2,966
Prepayments, deposits and other receivables		145	35
Amount due from a fellow subsidiary		—	10,200
Amount due from ultimate holding company		—	2
Bank balances and cash		227,335	165,405
		<u>257,627</u>	<u>266,734</u>
Current liabilities			
Trade payables	10	6,110	64,294
Other payables and accrued liabilities		13,434	5,349
Amount due to ultimate holding company		178	—
Amount due to a fellow subsidiary		59	916
Taxation payable		272	1,573
		<u>20,053</u>	<u>72,132</u>
Net current assets			
		<u>237,574</u>	<u>194,602</u>
		<u>300,006</u>	<u>216,807</u>
Capital and reserves			
Share capital	11	5,143	4,911
Reserves		110,095	116,794
		<u>115,238</u>	<u>121,705</u>
Minority interests			
		<u>6,735</u>	<u>—</u>
Total equity			
		<u>121,973</u>	<u>121,705</u>
Non-current liability			
Redeemable convertible preferred shares	12	178,033	95,102
		<u>300,006</u>	<u>216,807</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital HK\$'000	Share Premium HK\$'000	Special Reserve HK\$'000	Preferred shares equity reserve HK\$'000	Translation reserve HK\$'000	Retained profits (loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005	4,000	30,040	92	—	—	31,459	65,591	—	65,591
Total recognise profit (loss) for the period	—	—	—	—	—	13,000	13,000	—	13,000
Placing of shares	520	18,200	—	—	—	—	18,720	—	18,720
Share issue expenses	—	(146)	—	—	—	—	(146)	—	(146)
Issue of shares for the acquisition of Timeone Technology Limited ("Timeone")	391	18,768	—	—	—	—	19,159	—	19,159
Dividend	—	—	—	—	—	(12,000)	(12,000)	—	(12,000)
At 30 June 2005	<u>4,911</u>	<u>66,862</u>	<u>92</u>	<u>—</u>	<u>—</u>	<u>32,459</u>	<u>104,324</u>	<u>—</u>	<u>104,324</u>
At 1 January 2006	4,911	66,862	92	6,387	(221)	43,674	121,705	—	121,705
Exchange differences arising from translatio of overseas operation	—	—	—	—	(835)	—	(835)	—	(835)
Loss for the period	—	—	—	—	—	(8,251)	(8,251)	4	(8,247)
Total recognise profit (loss) for the period	—	—	—	—	(835)	(8,251)	(9,086)	4	(9,082)
Issue of shares upon exercise of share option	232	6,669	—	—	—	—	6,901	—	6,901
Equity component of the redeemable convertible preferred shares	—	—	—	11,051	—	—	11,051	—	11,051
Capital contribution from minority shareholders of subsidiary	—	—	—	—	—	—	—	6,731	6,731
Dividend	—	—	—	—	—	(15,333)	(15,333)	—	(15,333)
At 30 June 2006	<u>5,143</u>	<u>73,531</u>	<u>92</u>	<u>17,438</u>	<u>(1,056)</u>	<u>20,090</u>	<u>115,238</u>	<u>6,735</u>	<u>121,973</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	9,118	25,125
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(37,859)	146
NET CASH FROM FINANCING ACTIVITIES	91,506	6,574
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,765	31,845
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	165,405	33,592
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(835)	—
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	227,335	65,437

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

2. TURNOVER

Turnover represents the net amounts received and receivable for goods sold less returns and allowances.

3. SEGMENT INFORMATION

Business segment

The Group is principally engaged in trading of computer components. Accordingly, no business segmental analysis is presented.

Geographical segment

The Group's operations are principally carried out in Hong Kong and the Group's assets are substantially located in Hong Kong and PRC. Accordingly, no analysis of the carrying amount of segment assets and additions to property, plant and equipment by geographical segment is presented.

4. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit before taxation has been arrived at after charging:				
Cost of inventories recognised as expenses	150,460	159,917	281,585	306,817
Depreciation	111	111	212	233
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong Profits Tax:				
Current period	—	1,756	—	2,981
Share of taxation of associates	376	141	376	141
	<u>376</u>	<u>1,897</u>	<u>376</u>	<u>3,122</u>

No provision for Hong Kong profit tax has been made as the Group did not generate any assessable profits arising during the six months ended 30 June 2006, Hong Kong Profits Tax was provided at the rate of 17.5% on the estimated assessable profits arising during the six months ended 30 June 2005.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

6. (LOSS) EARNINGS PER SHARE

The calculation of basic loss per share (2005: earnings per share) for the three months and six months ended 30 June 2006 is based on the respective loss for the period of HK\$5,349,000 and HK\$8,251,000 (2005: earnings of HK\$7,215,000 and HK\$13,000,000) and the weighted average of 509,773,000 and 500,488,000 (2005: 430,033,000 and 415,099,000) ordinary shares in issue during the period.

Diluted loss per share for the three months and six months ended 30 June 2006 are not presented because the impact of the exercise of the share options are anti-dilutive. The calculation of diluted earnings per share for the three months and six months ended 30 June 2005 was based on the profit for the period of HK\$7,215,000 and HK\$13,000,000 and the weighted average of 465,517,000 and 445,993,000 ordinary shares in issue during the period, after adjusting for the effects of all dilutive potential ordinary shares during the period.

7. DIVIDEND

The directors do not recommend the payment of any dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: nil).

8. INTERESTS IN ASSOCIATES

Pursuant to the Company's circular dated 8 March 2006, Inspur (Jinan) Electronic Information Limited (formerly known as "Lang Chao (Jinan) Electronic Information Limited") (浪潮(濟南)信息技術有限公司) ("LC (Jinan)"), a wholly owned subsidiary of the Company subscribed for approximately 30.05% of the enlarged registered capital of Inspur Group ShanDong Genersoft Software Incorporation (formerly known as "Langchao Group ShanDong Genersoft Software Incorporation") ("LC Genersoft") at a consideration of RMB40,200,000 and paid in cash.

9. TRADE RECEIVABLES

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

The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
0 - 30 days	361	2,896
Over 90 days	28	70
	<u>389</u>	<u>2,966</u>

10. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
0 - 30 days	6,110	64,224
31 - 60 days	—	70
	<u>6,110</u>	<u>64,294</u>

11. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares		
Authorised:		
At 1 January 2005 and 30 June 2006	1,000,000	10,000
Issued:		
At 1 January 2005	400,000	4,000
Placing of shares (<i>Note a</i>)	52,000	520
Issue in consideration for the acquisition of Timeone (<i>Note b</i>)	39,100	391
At 30 June 2005 and 31 December 2005	491,100	4,911
Issue of shares upon exercise of share option	23,200	232
	<u>514,300</u>	<u>5,143</u>

Notes:

- (a) Pursuant to the meeting of the Board of Directors of the Company on 13 May 2005, the issue of 52,000,000 new shares of HK\$0.01 each for cash at HK\$0.36 per share by the way of placing was approved and the new shares were allotted to independent third parties on 1 June 2005;
- (b) On 1 June 2005, the Company issued 39,100,000 shares of HK\$0.01 each per share to the Vendors as consideration for the acquisition of the entire issued share capital of Timeone.

12. REDEEMABLE CONVERTIBLE PREFERRED SHARE

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

The Company issued 132,964,342 and 101,315,217, 6% Preferred Shares at HK\$0.76 and HK\$0.92 each on 8 December 2005 and 21 April 2006 respectively. The Preferred Shares are denominated in Hong Kong dollars. The holder of the Preferred Shares shall have the right to convert the Preferred Shares, at any time from the date of allotment of the Preferred Shares and up to 7 December 2011 and without payment of any additional consideration at the conversion rate of one Preferred Share to one ordinary share. If the Preferred Shares have not been converted, they will be redeemed on 8 December 2011 at par. Interest of 6% will be paid annually up until the settlement date. The details of terms of the Preference Shares are set out in the Company's circular dated 28 October 2006.

The Preferred Shares contain two components, liability and equity elements. Upon the application of HKAS 32 (see Note 3 for details), the proceeds from issue of Preferred Shares have been allocated between the liability and equity elements.

The movement of the liability component of the Preferred Shares for the period is set out below:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
Liability component recognised	173,141	94,666
Interest charge	4,892	436
	<u>178,033</u>	<u>95,102</u>

13. ACQUISITION OF A SUBSIDIARY

Pursuant to the Company's circular dated 8 March 2006, the Group subscribed approximately 53.3% of the enlarged registered capital of Shandong Inspur E-Government Software Limited (formerly known as "Shandong Lang Chao E-Government Software Ltd") (山東浪潮電子政務軟件有限公司) ("LC E-Government") in cash. This transaction has been accounted for using the acquisition method of accounting.

The net assets acquired in the transaction is as follows:

	Acquiree's carrying amount before combination HK\$'000
Net assets acquired:	
Bank and cash balances	6,731
	<u>6,731</u>
Total consideration paid by cash	<u>7,692</u>
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	<u>6,731</u>

LC E-Government contributed nil revenue and HK\$4,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total profit for the period would have been HK\$4,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

14. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in condensed consolidated balance sheet, the Group had entered into the following related party transactions during the period:

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Sales of goods (Note a)	<u>53,063</u>	<u>27,519</u>

Notes:

- The Group sold the goods at cost plus 1.5% to the ultimate holding company and a fellow subsidiary of the Company.
- During the period, Inspur Electronic Information Industry Co., Ltd. (formerly known as "Lang Chao Electronic Information Industry Co., Ltd."), a fellow subsidiary of the Company, has granted to the Group the right to use various "Lang Chao" trademark in Hong Kong, Taiwan and the PRC on a royalty-free basis for so long as LC Corporation and its associates are beneficially interested in, directly or indirectly, not less than 30% the total issued share capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover decreased by approximately HK\$47,037,000 to HK\$280,189,000 during the six months period under review, representing approximately 14.4% decrease as compared with last corresponding period. Such decrease was mainly attributable to the decrease in sales of CPU.

The Group recorded a gross loss of approximately HK\$1,447,000 with the gross loss margin of approximately 0.5%, a decrease of approximately 107.1% as compared with gross profit of last corresponding period approximately HK\$20,268,000. This decrease was due to the decreasing of the selling price.

The administrative expenses for the six months ended 30 June 2006 decreased by approximately HK\$525,000 or approximately 9.8% as compared to last corresponding period.

The interest expenses for the six months ended 30 June 2006 was approximately HK\$4,892,000 but there was no interest expenses for the last corresponding period.

The net loss attributable to shareholders of the Company for the six months ended 30 June 2006 was approximately HK\$8,251,000, a 163.5% decrease when compared to net profit approximately HK\$13,000,000 for the corresponding period in 2005. Such decrease was mainly from the finance cost of convertible preference shares and the decreasing of selling price during the period.

Capital structure

The Group intends to principally finance its operation with its internal resources and net proceeds from fund raising activities. On 12 April 2006, 9,200,000 and 10,800,000 new ordinary shares were issued upon the exercise of pre-IPO share options and share options at the price of HK\$0.324 and HK\$0.28 per share respectively for net proceeds of approximately HK\$6,004,000 of the shares of the Company. On 1 June 2006, 3,200,000 new ordinary shares were issued upon the exercise of share options at the price of HK\$0.28 per share for net proceeds of approximately HK\$896,600 of the shares of the Company.

On 21 April 2006, the Company issued 101,315,217, 6% redeemable convertible preferred shares to Microsoft Corporation ("Microsoft") at HK\$0.92 per share for net proceeds of approximately HK\$93,210,000.

Liquidity and financial resources

The Group generally finances its operation with cash flow generated from sales and remaining portion of the net proceeds from fund raising activities. As at 30 June 2006, shareholders' funds of the Group amounted to approximately HK\$115,238,000 (31 December 2005: HK\$121,705,000). Current assets amount to approximately HK\$257,627,000 of which approximately HK\$227,335,000 were cash and bank balances. Current liabilities of approximately HK\$20,053,000 mainly comprised accounts payable, tax payable and other payables and accrued liabilities. The Group's current assets are approximately 12.85 times (31 December 2005: 3.70 times) over its current liabilities. As at 30 June 2006, the Group had no bank borrowings (31 December 2005: Nil).

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Foreign exchange exposure

All of the Group's sales and purchase are mainly denominated in United States Dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of foreign currencies. The Directors believe that having regard to the working capital position of the Group, the Group is able to meet its foreign exchange liabilities as they become due.

Employee information

As at 30 June 2006, the Group had 41 employees (2005: 22 employees). The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the year under review amounted to approximately HK\$2,316,000 (2005: approximately HK\$3,774,000).

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. In addition, the Group also provides mandatory provident fund scheme, medical insurance scheme for its employees.

Charges on assets

During the period under review, no assets of the Group were pledged (six months ended 30 June 2005: Nil).

Material acquisition, disposals and significant investment

The Group had increased to invest US\$9,000,000 to a wholly owned subsidiary LC (Jinan) to acquire the registered capital of LC Genersoft and LC E-Government.

The Group subscribed for approximately 30.05% of the enlarged registered capital of LC Genersoft at a consideration of RMB40,200,000 and subscribed for approximately 53.3% of the enlarged registered capital of LC E-Government at a consideration of RMB8,000,000. Further details regarding the subscription are set out in the Company's circular dated 8 March 2006.

Save as disclosed above, the Group has not held any significant investment for the six months ended 30 June 2006 and made no material acquisitions or disposals during the current period. As 30 June 2006, the Group had no material capital commitments and no future plans for material investments or capital assets.

Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

BUSINESS REVIEW AND PROSPECTS

The Group will continue to place particular emphasis on keeping abreast with market developments and product trends in the information technology sector in order to further procure its existing and other information technology products. The Group will extend into the market of management software and the market of e-government business through investment in LC Genersoft and LC E-Government respectively and thereby diversify its revenue sources and build up its reputation in the software industry. The Directors consider that the investment will enhance the Group's overall business performance, strengthen its revenue base and diversify its business risk by enlarging its product and service base.

The Company further issued preference share to Microsoft. As Microsoft is one of the largest software developers in the world, the introduction of Microsoft as a substantial shareholder will enhance future cooperation between the Group and Microsoft, resulting in common synergies and benefit for both the Group and Microsoft. The Group will also continue to look for opportunities to cooperate with new technology partners who can complement its own products and business. Relying on its sound financial position and the team spirit of the management and staff, I believe the Group's business will continue to prosper. The Group is also looking to opportunities in PRC and will utilise the expertise and connections with its reseller network to accelerate entry to this market.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS FOR THE PERIOD ENDED 30 JUNE 2006

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

Revenue

- To continue generating revenue from its sourcing and distribution business in the PRC, Hong Kong and other overseas markets
- To generate revenue from the distribution of LC Group's products
- To generate revenue from IT advisory services
- To generate revenue from the distribution of computer components sourced from new suppliers

Business development

- To establish a sales centre in Shanghai
- To procure no less than 6 new and independent customers in Hong Kong and the PRC
- To expand the use of the supply chain management system to provide logistic and delivery services to customers in Shanghai, Shenzhen and nearby areas
- To establish a logistic centre in Beijing with its own warehousing and logistic facilities
- To continue with the strengthening of the Group's IT advisory services with the establishment of advisory service teams in Shanghai and Shenzhen

ACTUAL BUSINESS PROGRESS

Revenue

- The revenue had recorded approximately HK\$280 million
- Negotiation with potential customers on sales and distribution of LC Group's products in overseas market is in progress
- Negotiation with potential customers
- Negotiation with potential supplier to source of computer component

Business development

- Conducted a feasibility study to establish a sales centre in Shanghai
- Negotiation with potential customers
- Conducted a feasibility study the supply chain management system
- Conducted a feasibility study to establish a logistic centre in Beijing
- Conducted a feasibility study to establish of advisory service teams in Shanghai and Shenzhen

Suppliers and product range

- To continue with the diversification of the Group's range of products including but not limited to LC Group's products
- To continue exploring opportunities for new suppliers and the sourcing and distribution of new computer components and IT products
- To secure no less than 3 new suppliers to diversify the Group's product portfolio

Sales and marketing

- To continue to develop and enhance further content, including the provision of technical support, credit and settlement details and inventory status information, on the website
- To continue marketing and promotion campaigns for the sales and distribution of LC Group's products
- To promote the Group's products and services through participation in industry and information technology seminars, trade exhibitions and advertisements in industry journals and publications in Hong Kong and the PRC
- To host seminars to promote Linux based operating system and applications
- To continue to identify and solicit potential customers, primarily manufacturers and end users in the PRC, through the Group's sales and marketing team in Hong Kong and the newly established sales centres in the PRC

Human resources and operation

- To maintain staff level at approximately 39 employees for the Group's overall business operations
- To conduct regular reviews and efficient allocation of resources in the different business operations, and sales and administrative offices and service teams of the Group

Suppliers and product range

- Started selling new products including Pentium Dual Core 2.80GHz, Pentium Mobile 1.73 GHz and Celeron D 3.06GHz to the Group's existing customers
- Negotiation with potential supplier to source of new computer components
- Negotiation with potential supplier to diversify of product portfolio

Sales and marketing

- The corporate website have been postponed due to the design and contents have not finalized
- Negotiation with potential customer to market and promote of LC Group's products
- Participated the Sixth China Electronic Tax Return Exhibition (中國第六屆稅收電子化展覽會)
- The seminar has been delayed because to conduct a feasibility study the acceptability of Linux based operating system and applications in the market
- Negotiation with potential customer to distribute the product
- Confirmed with overseas customers to sell the product

Human resources and operation

- The group had 41 employees to facilitate the Groups' business development and management
- The group had reviewed the operation regularly

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES TO THE PERIOD ENDED 30 JUNE 2006

		Proposed fund required during the period HK\$'000	Actual fund spent during the period HK\$'000
Establishing sales centres	1	3,700	1,870
Developing supply chain management system	2	1,700	—
Establishing IT advisory service teams		1,600	1,600
Expanding product scope and sourcing with products		8,000	8,000
Establishing distribution network for LC Group's products	3	1,500	—
General sales and marketing purpose		1,600	1,600
Total		18,100	13,070

Note:

1. The Group has postponed to establish a sales centre in Shenzhen and Shanghai.
2. The Group has postponed the development of supply chain management system because the result of first feasibility study was not satisfactory.
3. The Group is still in negotiation with the potential customers and distributor for LC Group's product. Therefore the Group has postponed to establish the distribution network.

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

As at 30 June 2006, the interests and short positions of the directors and the chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Name of Directors	Type of interests	Number of securities	Number of interests
Wang Miao	Beneficial owner	15,000,000	2.9%
Wang Hung, Alex	Beneficial owner	15,000,000	2.9%

(B) LONG POSITIONS IN UNDERLYING SHARES OF EQUITY DERIVATIVES OF THE COMPANY**Options in the Company (Unlisted and physically settled equity derivatives)**

Name of Directors	Type of interests	Description of equity derivatives (note)	Number of underlying shares	Subscription price per share HK\$
Sun Pishu	Beneficial owner	Share option	4,000,000	0.324
Zhang Lei	Beneficial owner	Share option	4,000,000	0.324
Leung Chi Ho	Beneficial owner	Share option	4,000,000	0.324
Wang Miao	Beneficial owner	Share option	4,000,000	0.324
Wang Hung, Alex	Beneficial owner	Share option	4,000,000	0.324
Xin Wei Hua	Beneficial owner	Share option	4,000,000	0.324

Note: The share options were granted under the Pre-IPO Share Option Scheme as disclosed in the prospectus of the Company dated 20 April 2004. These options expire ten years from the date of grant.

(C) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF EQUITY DERIVATIVES OF THE COMPANY

As at 30 June 2006, none of the Directors has short positions in shares or underlying shares of equity derivatives of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the following persons or companies (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO, and were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances as general meeting of any other members of the Group were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Name of Shareholders	Type of interests	Number of securities	Approximate percentage of interests
Inspur Group Limited (formerly known as "Lang Chao Group Limited")	Corporate (note)	270,000,000	52.5%
Inspur Electronics (HK) Limited (formerly known as "Lang Chao Electronics (HK) Limited")	Beneficial owner	270,000,000	52.5%

Note: Inspur Group Limited is taken to be interested in 270,000,000 shares due to its 100% shareholdings in the issued share capital of Inspur Electronics (HK) Limited.

(B) SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND EQUITY DERIVATIVES OF THE COMPANY

As at 30 June 2006, no persons have short positions in shares or underlying shares of equity derivatives of the Company.

(C) LONG POSITIONS IN SERIES A SENIOR REDEEMABLE CONVERTIBLE VOTING PREFERRED SHARES OF THE COMPANY

Name of shareholder	Capacity	Number of securities	Approximate percentage of interests
Microsoft Corporation	Beneficial owner	234,279,559	100%

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2006, 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 2006, none of the directors, chief executive, initial management shareholders nor substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes with or may compete with the business of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix V of the prospectus of the Company dated 20 April 2004. As at 8 April 2004, options to subscribe for an aggregate of 40,000,000 Shares at HK\$0.324 per Share had been granted by the Company under to Pre-IPO Share Option Scheme.

During six months ended 30 June 2006, 9,200,000 pre-IPO share options have been exercised. Save as disclosed above, none of the options granted under the Pre-IPO Share Option Scheme have been exercised, cancelled or lapsed during six months ended 30 June 2006. As at 30 June 2006, 24,000,000 shares option are outstanding.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of principle terms and conditions of the share option scheme are set out in the section headed "Summary of terms" in Appendix V of the prospectus of the Company dated 20 April 2004. As at 28 December 2004, options to subscribe for an aggregate of 40,000,000 Shares at HK\$0.28 per Share had been granted by the Company under to Share Option Scheme.

During six months ended 30 June 2006, 14,000,000 share options have been exercised. Save as disclosed above, none of the options granted under the Share Option Scheme have been exercised, cancelled or lapsed during six months ended 30 June 2006. As at 30 June 2006, 26,000,000 shares option are outstanding.

COMPLIANCE ADVISER'S INTEREST

The Company has been notified by Guotai Junan Capital Limited (the "Compliance Adviser") that as at 30 June 2006, neither Compliance Adviser nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 30 June 2006.

Pursuant to the agreement dated 31 August 2005 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's retained sponsor for the period from 1 September 2005 to 31 December 2006.

AUDIT COMMITTEE

The Company established an audit committee on 8 April 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM 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. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee.

The Group's unaudited consolidated results for the six months ended 30 June 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

CORPORATE GOVERNANCE

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the period ended 30 June 2006.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 14 August 2006

As at the date of this report, the Board comprised Mr. Sun Pishu, Mr. Zhang Lei, Mr. Wang Miao and Mr. Leung Chi Ho as executive Directors, Mr. Xin Wei Hua, Mr. Wang Hung, Alex, Mr. Marc Evan Brown and Mr. William James Fass as non-executive Directors, and Mr. Meng Xiang Xu, Mr. Liu Ping Yuan and Mr. Wong Lit Chor, Alexis as independent non-executive Directors.