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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)

Third Quarterly 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”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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 nine months ended 30 September 2006 together with comparative unaudited figures for the corresponding period in 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	2	209,252	201,453	489,441	528,679
Cost of sales		(191,584)	(190,682)	(473,220)	(497,640)
Gross profit		17,668	10,771	16,221	31,039
Other operating income		1,088	111	2,567	260
Administrative and operating expenses		(4,405)	(2,007)	(9,217)	(7,344)
Interest expenses		(3,631)	—	(8,523)	—
Share of profit less loss of associates		2,165	1,885	3,966	2,927
Profit before taxation		12,885	10,760	5,014	26,882
Taxation	3	(1,526)	(1,287)	(1,902)	(4,409)
Net profit for the period		11,359	9,473	3,112	22,473
Attributable to:					
Equity holders of the Company		11,364	9,473	3,113	22,473
Minority interests		(5)	—	(1)	—
		11,359	9,473	3,112	22,473
Earnings per share	4				
Basic		2.21 cents	1.93 cents	0.62 cents	5.10 cents
Diluted		1.93 cents	1.73 cents	0.58 cents	4.61 cents

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.

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. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong Profits Tax:				
Current period	1,304	1,248	1,304	4,229
Share of taxation of associates	222	39	598	180
	<u>1,526</u>	<u>1,287</u>	<u>1,902</u>	<u>4,409</u>

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the period.

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

4. EARNINGS PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Earnings				
Earnings for the purposes of basic earnings per share	11,364	9,473	3,113	22,473
Interest on redeemable convertible preferred shares	3,631	—	—	—
Earnings for the purpose of diluted earnings per share	<u>14,995</u>	<u>9,473</u>	<u>3,113</u>	<u>22,473</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	514,300	491,100	505,131	440,711
Effect of dilutive potential ordinary shares:				
– options	28,233	57,118	32,805	46,707
– redeemable convertible preferred shares	234,280	—	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>776,813</u>	<u>548,218</u>	<u>537,936</u>	<u>487,418</u>

During the nine months ended 30 September 2006, no diluted earnings per share is presented in respect of the convertible preferred shares, as the conversion of convertible preferred shares would result in an increase in earnings per share.

5. DIVIDEND

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

6. SHARE CAPITAL AND RESERVE

	Share Capital	Share Premium	Special Reserve	Preferred Shares Equity Reserve	Translation Reserve	Retained profit	Total	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	4,000	30,040	92	—	—	31,459	65,591	—	65,591
Exchange differences arising from translation of overseas operation	—	—	—	—	367	—	367	—	367
Profit for the period	—	—	—	—	—	22,473	22,473	—	22,473
Total recognise profit for the period	—	—	—	—	367	22,473	22,840	—	22,840
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	391	18,768	—	—	—	—	19,159	—	19,159
Dividend	—	—	—	—	—	(12,000)	(12,000)	—	(12,000)
At 30 September 2005	4,911	66,862	92	—	367	41,932	114,164	—	114,164
At 1 January 2006	4,911	66,862	92	6,387	(221)	43,674	121,705	—	121,705
Exchange differences arising from translation of overseas operation	—	—	—	—	5,325	—	5,325	—	5,325
Profit for the period	—	—	—	—	—	3,113	3,113	(1)	3,112
Total recognise profit for the period	—	—	—	—	5,325	3,113	8,438	(1)	8,437
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 September 2006	5,143	73,531	92	17,438	5,104	31,454	132,762	6,730	139,492

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover decreased by approximately HK\$39,238,000 to HK\$489,441,000 during the nine months period under review, representing 7.4% decrease as compared with last corresponding period. Such decrease was mainly attributable to the decrease in sales of central process units.

The Group recorded a gross profit of approximately HK\$16,221,000 with the gross profit margin of approximately 3.3%, a decrease of approximately 47.7% as compared with gross profit of last corresponding period approximately HK\$31,039,000. This decrease was due to the decreasing of the selling price.

The administrative and operating expenses for the nine months ended 30 September 2006 increased by approximately HK\$1,873,000 or 25.5% as compared to last corresponding period. This increase was due to the increasing the operating expense of subsidiaries in PRC.

The net profit attributable to shareholders of the Company for the nine months ended 30 September 2006 was approximately HK\$3,113,000, a 86.1% decrease when compared to net profit approximately HK\$22,473,000 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.

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 Inspur Group Shandong Gensoft Limited and Inspur E-Government Software Limited 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.

In 21 April 2006, the Company further issued preference share to Microsoft Corporation ("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 Greater China and will utilise the expertise and connections with its reseller network to accelerate entry to this market.

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

As at 30 September 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	Approximate percentage 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 September 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 September 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	Corporate (note)	270,000,000	52.5%
Inspur 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 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2006. As at 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2006. As at 30 September 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 September 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 September 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 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 nine months ended 30 September 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.

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 September 2006.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 8 November 2006