

inspur 浪潮

浪潮國際有限公司*

INSPUR INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8141)



IT SERVICES
e-government
telecommunication
Financial Sector
ERP

FIRST QUARTERLY REPORT

2008

* For identification purpose only

The board of Directors (the "Board") of Inspur International Limited (the "Company") presents the unaudited consolidated results (the "Unaudited Consolidated Results") of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2008 together with comparative unaudited figures for the corresponding period in 2007.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 31 March	
		2008	2007
		HK\$'000	HK\$'000
	<i>Notes</i>		
Revenue	2	234,176	103,646
Cost of sales		(161,778)	(103,099)
Gross profit		72,398	547
Other income		8,006	208
Administrative expenses		(22,556)	(5,977)
Other operating expenses		(1,172)	–
Interest expenses		(3,625)	(3,572)
Share of profits of associates		1,396	151
Profit/(Loss) before taxation		54,447	(8,643)
Taxation	3	(5,929)	–
Net profit/(loss) for the period		48,518	(8,643)
Attributable to:			
Equity holders of the Company		42,163	(8,255)
Minority interests		6,355	(388)
		48,518	(8,643)
Earnings/(Loss) per share	4		
Basic		1.40 cents	(0.32) cents
Diluted		1.01 cents	N/A

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited.

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 used in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

2. REVENUE

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group, less discounts, returns and allowances.

3. TAXATION

Hong Kong profits tax has been provided at 17.5% on the estimated assessable profits for the period. PRC enterprise income tax has been provided at rates ranging from 10% – 25% in according with relevant laws and regulations in the PRC.

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

4. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the parent is based on the following data:

	Three months ended 31 March	
	2008 HK\$'000	2007 HK\$'000
Earnings/(Loss)		
Earnings/(Loss) for the purpose of basic earnings/(loss) per share (Profit/(loss) for the period attributable to equity holders of the parent)	42,163	(8,255)
Interest on redeemable convertible preferred shares	<u>3,625</u>	<u>3,572</u>
Earnings/(Loss) for the purposes of diluted earnings/(loss) per share	<u>45,788</u>	<u>(4,683)</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	3,006,324	2,571,500
Effect of dilutive potential ordinary shares:		
– share options	372,552	131,990
– redeemable convertible preferred shares	<u>1,171,398</u>	<u>1,171,398</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>4,550,274</u>	<u>3,874,888</u>

The weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share for the period ended 31 March 2007 has been adjusted for the share sub division which took effect on 14 December 2007.

5. DIVIDEND

The directors do not recommend the payment of a dividend for the three months ended 31 March 2008 (2007: nil).

6. SHARE CAPITAL AND RESERVE

	Share capital	Share premium	Special reserve	Preferred shares equity reserve	Share option reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	5,143	73,531	92	17,438	-	8,422	53,501	158,127	6,718	164,845
Exchange differences arising from translation of overseas operations	-	-	-	-	-	4,230	-	4,230	-	4,230
Loss for the period	-	-	-	-	-	-	(8,255)	(8,255)	(388)	(8,643)
At 31 March 2007	<u>5,143</u>	<u>73,531</u>	<u>92</u>	<u>17,438</u>	<u>12,652</u>	<u>45,246</u>	<u>154,102</u>	<u>6,330</u>	<u>6,718</u>	<u>160,432</u>
At 1 January 2008	<u>5,861</u>	<u>125,741</u>	<u>92</u>	<u>17,438</u>	<u>10,937</u>	<u>29,998</u>	<u>84,587</u>	<u>274,654</u>	<u>8,942</u>	<u>283,596</u>
Exchange differences arising from translation of overseas operations	-	-	-	-	-	15,773	-	15,773	440	16,213
Profit for the period	-	-	-	-	-	-	42,163	42,163	6,355	48,518
Total recognized income for the period	-	-	-	-	-	15,773	42,163	57,936	6,795	64,731
Placing of new shares	200	124,800	-	-	-	-	-	125,000	-	125,000
Transaction costs attributable to placing of new shares	-	(3,800)	-	-	-	-	-	(3,800)	-	(3,800)
Arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	72,588	72,588
Recognition of equity-settled share-based payments	-	-	-	-	818	-	-	818	-	818
	<u>200</u>	<u>121,000</u>	<u>-</u>	<u>-</u>	<u>818</u>	<u>-</u>	<u>-</u>	<u>122,018</u>	<u>72,588</u>	<u>194,606</u>
At 31 March 2008	<u>6,061</u>	<u>246,741</u>	<u>92</u>	<u>17,438</u>	<u>11,755</u>	<u>45,771</u>	<u>126,750</u>	<u>454,608</u>	<u>88,325</u>	<u>542,933</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the period, the Group recorded a turnover of HK\$234,176,000 (2007: HK\$103,646,000, increased by 125.94% as compared with last period which was mainly attributable to the increase in sales of software and services especially in the banking and financial sector, and the turnover contributed from the newly acquired PRC subsidiaries, Inspur Communication and Inspur Genersoft, acquisition of which were completed during the period.

Gross profit was HK\$72,398,000 (2007: HK\$547,000) with gross profit margin of 30.92% (2007: 0.53%). The sharp increase was mainly attributable to the change in sale mix in 2008, with more sales of software products and IT services which yielded higher margin than trading of computer components.

Administrative expenses were HK\$22,556,000 (2007: HK\$5,977,000). The increase was mainly attributable to the consolidation of expenses for the newly acquired PRC subsidiaries during the period.

Net profit attributable to shareholders was HK\$42,163,000 (2007: loss of (HK\$8,255,000)). The increase was mainly attributable to the increase in sales of software products and IT services, receipt of other income in respect of VAT refund, and increase in share of profits from associates.

Business review and prospects

During the period, riding on the surging trend in 2007, the Group has secured a promising development in its business of IT services in the finance and banking, tax-collection cashier machines, telecommunication, government and the small-to-medium enterprises sectors. Turnover has been increased substantially compared with last year, which demonstrates the successful strategy of the Group's transformation to an IT Services and software outsourcing provider.

On 22 January 2008, the Company completed a placing of a total of 100,000,000 ordinary shares at HK\$1.25 per share to certain institutional investors and received net proceeds of HK\$121,200,000.

On 19 February 2008, the Group entered into an acquisition agreement pursuant to which the Group agreed to acquire an additional 60% of the registered capital of Shandong Inspur Business System Company Limited ("IBS") at a consideration of RMB36,000,000, subject to valuation adjustment. Completion took place on 26 March 2008. The result of IBS will be consolidated into the Group's financial statement starting from 1 April 2008.

During the period, certain of the strategic acquisition agreements entered into in 2007 were completed and have started reflecting in the Group's financial statements. The Group has been transformed from a computer components and products trading company to an IT services and software outsourcing provider, and aiming at prominent market sectors including finance and banking, telecommunication, and government sectors. Full impacts and potentials of such newly acquired subsidiaries are expected to reflect in the Group's future financial statements.

1. *Telecommunication*

The Group recorded strong business growth during the period in the telecommunication sector. Sales of products and services in the amount of RMB11,000,000 were generated in respect of network enhancement to Jiangsu and Hunan China Mobile Limited during the period. Besides, the Group has won the bid in certain major telecommunication projects in the PRC and overseas, including network maintenance contracts with the national telecommunication company of the Republic of Sudan and Sri Lanka with aggregate contract amount of approximately RMB7,000,000. The Group has also entered into certain IT service agreements with Gansu China Mobile Limited with contract amount of RMB8,000,000.

2. *ERP*

During the period, the Group continued to maintain a leading position in providing ERP services to large PRC stated owned companies, and has entered into service agreements with China Petroleum & Chemical Corporation, China Grain Reserves Corporation, China Weapon Industry Corporation, China Railway Engineering Corporation, China Faw Group Corporation. Such service agreements and business connections secure the potential of development and rapid growth of the Group's ERP business and income stream.

3. *Finance and Banking*

The Group has achieved significant growth in IT services in the Finance and Banking sector during the period, and has provided services to China Construction Bank, Agricultural Bank of China, Citic Industrial Bank, China Minsheng Bank, China Merchants Bank, China Everbright Bank, Huaxia Bank and Bank of China. Revenue from IT operations and maintenance increased by more than RMB50,000,000 compared with last corresponding period. Besides, the financial management software products has also had great development, which has contributed approximately RMB10,000,000 to the Group's gross profit for the period. During the period, the Group has won the bid for the queuing management system project of China Life Insurance Company Limited with contract amount of RMB20,000,000 and a wealth management system project of China Merchants Bank with contract amount of RMB9,300,000.

4. *e-Government*

The Group has placed more emphasis on the development of IT services in the e-Government sector since the second half of 2007. Development and growth of the e-Government business is rapid. During the period, the Group has secured one contract with contract amount of RMB5,000,000.

Looking ahead, the software and IT services markets, the finance and banking sector, tax-collection cashier machines, telecom, ERP and the computer products markets have great opportunity for further growth and expansion. With the leading position and the solid foundation established, the Group has been well prepared to meet the market opportunities and challenges.

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

As at 31 March 2008, the interests and short positions of the directors and the chief executive and their associates 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	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wang Miao	Beneficial owner	75,000,000	2.47%
Wang Hung, Alex	Beneficial owner	75,000,000	2.47%

(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	Capacity	Description of equity derivatives <i>(Note)</i>	Number of underlying shares	Subscription price per share <i>HK\$</i>
Sun Pishu	Beneficial owner	Share option	20,000,000	0.0648
Zhang Lei	Beneficial owner	Share option	20,000,000	0.0648
Leung Chi Ho	Beneficial owner	Share option	20,000,000	0.0648
Wang Miao	Beneficial owner	Share option	20,000,000	0.0648
Wang Hung, Alex	Beneficial owner	Share option	20,000,000	0.0648
Xin Wei Hua	Beneficial owner	Share option	20,000,000	0.0648

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 31 March 2008, none of the Directors had 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 31 March 2008, 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

<u>Name of Directors</u>	<u>Capacity</u>	<u>Number of issued ordinary shares held</u>	<u>Percentage of the issued share capital of the Company</u>
Inspur Group Limited	Corporate <i>(note)</i>	1,350,000,000	44.55%
Inspur Electronics (HK) Limited	Beneficial owner	1,350,000,000	44.55%

Note: Inspur Group Limited is taken to be interested in 1,350,000,000 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 31 March 2008, no persons had 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

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTEREST

During the three months ended 31 March 2008, 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 the 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.

None of the options granted under the Pre-IPO Share Option Scheme had been exercised, cancelled or lapsed during the three months ended 31 March 2008. As at 31 March 2008, 120,000,000 shares were outstanding.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. A summary of the 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.

None of the options granted under the Share Option Scheme had been exercised, cancelled or lapsed during three months ended 31 March 2008. As at 31 March 2008, 278,150,000 shares option were outstanding.

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 audit committee has reviewed the draft of this report and has provided advice and comments thereon.

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 31 March 2008, save as notice of 11 days was given of a regular board meeting which was less than 14 days as required under Code A.1.3. The meeting was scheduled on a date such that most directors were able to attend. The Company will improve its meeting scheduling and arrangement in order to ensure full compliance with Code A.1.3 in future.

By Order of the Board
Inspur International Limited
Sun Pishu
Chairman

Hong Kong, 17 April 2008

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 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.