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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 2014**

The board of Directors (the “Board”) of Inspur International Limited (the “Company”) present the unaudited consolidated results (the “Unaudited Consolidated Results”) of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 together with comparative unaudited figures for the corresponding period in 2013. These interim results have not been reviewed by the auditors of the company, but have been reviewed by the audit committee of the company.

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

Six months ended 30 June

	Notes	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Continuing operations			
Revenue	2	617,167	507,375
Cost of sales		<u>(365,048)</u>	<u>(273,004)</u>
Gross profit		252,119	234,371
Other income	3	72,746	46,535
Administrative and other operating expenses		(207,860)	(182,635)
Selling and distribution expenses		(182,414)	(129,288)
Amortisation of other intangible assets		(1,853)	(2,603)
Interest expenses		-	(2,869)
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss		-	(7,808)
Share of profit (loss) profit of associates		<u>13,767</u>	<u>(8,244)</u>
Loss before taxation	4	(53,495)	(52,541)
Taxation	5	<u>(312)</u>	<u>(1,026)</u>
Loss for the period from Continuing operations		<u>(53,807)</u>	<u>(53,567)</u>
Discontinued operations			
Profit for the period from discontinued operations	7	<u>-</u>	<u>268,183</u>
		<u>(53,807)</u>	<u>214,616</u>
(Loss) profit for the period from continuing and discontinued operations			
Owners of the Company		(53,689)	217,043
Non-controlling interests		<u>(118)</u>	<u>(2,427)</u>
		<u>(53,807)</u>	<u>214,616</u>
(Loss) earnings per share from continuing and discontinued operations	6		
Basic		<u>(5.96) cents</u>	<u>25.65 cents</u>
Diluted		<u>(5.96) cents</u>	<u>25.15 cents</u>
Loss per share from continuing operations	6		
Basic		<u>(5.96) cents</u>	<u>(6.05) cents</u>
Diluted		<u>(5.96) cents</u>	<u>(6.05) cents</u>

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

Six months ended 30 June

	2014 <i>HK\$'000</i> <i>(unaudited)</i>	2013 <i>HK\$'000</i> <i>(unaudited)</i>
Net (loss) profit for the period from continuing and discontinuing operations	(53,807)	214,616
Item that may not be reclassified to profit or loss		
Other Comprehensive (expenses) Income:		
Exchange Difference arising on translation	<u>(11,660)</u>	<u>32,053</u>
Total Comprehensive Income for the period	<u>(65,467)</u>	<u>246,669</u>
Total comprehensive (expenses)income attributable to:		
Owners of the Company	(65,493)	249,018
Minority interests	<u>26</u>	<u>(2,349)</u>
	<u>(65,467)</u>	<u>246,669</u>

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	<i>Notes</i>	30.6.2014 HK\$'000 <i>(unaudited)</i>	31.12.2013 <i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment		325,659	242,710
Investment property		10,839	10,839
Prepaid lease payments		39,347	39,652
Other intangible assets		14,816	16,669
Available-for-sale Investment		23,428	23,433
Interests in associates		138,974	122,848
Interest in a jointly venture		112,505	118,077
		665,568	574,228
Current assets			
Inventories		77,125	28,271
Trade receivables	9	318,474	295,702
Prepaid lease payments		922	929
Prepayments, deposits and other receivables		160,732	78,632
Amounts due from customers for contract work		58,156	32,987
Amount due from fellow subsidiaries	9	88,528	192,689
Entrusted loans receivable		314,742	509,585
Amount due from ultimate holding company	9	22,872	9,423
Taxation recoverable		-	95
Pledged bank deposits		-	15,656
Bank balances and cash		895,083	897,467
		1,936,634	2,061,436
Current liabilities			
Trade and bills payables	10	174,142	188,779
Other payables, deposits received and accrued expenses		261,460	265,575
Amounts due to customers for contract work		188,899	104,823
Amount due to fellow subsidiaries	10	60,004	54,536
Amount due to ultimate holding company	10	3,626	3,102
Deferred Income- government grant		16,472	11,220
Taxation payable		4,152	6,577
		708,755	634,612
Net current assets		1,227,879	1,426,824
Total assets less current liabilities		1,893,447	2,001,052
Non-current liabilities			
Deferred income-government grant		25,829	40,403
Deferred tax liabilities		17,939	18,402
		43,768	58,805
		1,849,679	1,942,247

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED) (CON'T)

	<i>Notes</i>	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Capital and reserves			
Share capital	12	9,015	9,015
Reserves		<u>1,836,542</u>	<u>1,929,136</u>
Equity attributable to owners of the Company		1,845,557	1,938,151
Minority interests		<u>4,122</u>	<u>4,096</u>
Total equity		<u><u>1,849,679</u></u>	<u><u>1,942,247</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Special Reserve <i>HK\$'000</i>	Preferred shares equity reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits (loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013	<u>8,455</u>	<u>857,437</u>	<u>92</u>	<u>13,443</u>	<u>22,623</u>	<u>200,449</u>	<u>599,705</u>	<u>1,702,204</u>	<u>3,078</u>	<u>1,705,282</u>
Exchange differences arising from translation of overseas operation	—	—	—	—	—	31,975	—	31,975	78	32,053
Profit(loss) for the period	—	—	—	—	—	—	217,043	217,043	(2,427)	214,616
Total recognise profit (loss) for the period	—	—	—	—	—	31,975	217,043	249,018	(2,349)	246,669
Dividend payable	—	—	—	—	—	—	(25,365)	(25,365)	—	(25,365)
At 30 June 2013	<u>8,455</u>	<u>857,437</u>	<u>92</u>	<u>13,443</u>	<u>22,623</u>	<u>232,424</u>	<u>794,111</u>	<u>1,925,857</u>	<u>729</u>	<u>1,926,586</u>
At 1 January 2014	<u>9,015</u>	<u>953,077</u>	<u>92</u>	<u>13,443</u>	<u>22,623</u>	<u>247,865</u>	<u>692,036</u>	<u>1,938,151</u>	<u>4,096</u>	<u>1,942,247</u>
Exchange differences arising from translation of overseas operation	—	—	—	—	—	(11,804)	—	(11,804)	144	(11,660)
Profit(loss) for the period	—	—	—	—	—	—	(53,689)	(53,689)	(118)	(53,807)
Total recognise profit (loss) for the period	—	—	—	—	—	(11,804)	(53,689)	(65,493)	26	(64,467)
Dividend payable	—	—	—	—	—	—	(27,101)	(27,101)	—	(27,101)
At 30 June 2014	<u>9,015</u>	<u>953,077</u>	<u>92</u>	<u>13,443</u>	<u>22,623</u>	<u>236,061</u>	<u>611,246</u>	<u>1,845,557</u>	<u>4,122</u>	<u>1,849,679</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(22,172)	(60,009)
NET CASH FROM (USED IN) FROM INVESTING ACTIVITIES	52,114	(47,254)
NET CASH USED IN FINANCING ACTIVITIES	(27,101)	(28,222)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,841	(135,485)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	897,467	1,184,761
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(5,225)	21,411
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	895,083	1,070,687

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 Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules.

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

In the current interim period, the Group has applied for some revised standards and amendments and interpretations (“HK(IFRIC)-IN’T”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2014. The adoption of the new HKFRSs has no material effect on the condensed consolidated financial statement for the current or prior accounting period.

2. REVENUE AND SEGMENT INFORMATION

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

Business segment

The Group is currently organized into software and embedded solution and software outsourcing. An operation regarding the trading of IT components was discontinued in the last period. The Segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 7.

About these operating divisions is presented below:

Segment revenues and results for the six months ended 30 June 2014

	Information technology services		Total <i>HK\$’000</i>
	Software and embedded solution <i>HK\$’000</i>	software outsourcing <i>HK\$’000</i>	
Revenue	<u>495,929</u>	<u>121,238</u>	<u>617,167</u>
Segment results	<u>(62,976)</u>	<u>(1,891)</u>	<u>(64,867)</u>
Unallocated income			1,145
Unallocated corporate expense			(3,540)
Share of results of associates	13,767	—	<u>13,767</u>
(Loss) before taxation			<u>(53,495)</u>
Taxation			<u>(312)</u>
(Loss) for the period			<u>(53,807)</u>

2. REVENUE AND SEGMENT INFORMATION (CON'T)
Business segment (CON'T)

Segment revenues and results for the six months ended 30 June 2013

	Information technology services		Total <i>HK\$'000</i>
	Software and embedded solution <i>HK\$'000</i>	software outsourcing <i>HK\$'000</i>	
Revenue	<u>410,015</u>	<u>97,360</u>	<u>507,375</u>
Segment results	<u>(38,715)</u>	<u>7,719</u>	(30,996)
Unallocated income			411
Unallocated corporate expense			(3,035)
Fair value change in Preferred Share classified as liabilities at fair value through profit or loss			(7,808)
Share of results of associates	(8,244)	—	(8,244)
Interest expenses			<u>(2,869)</u>
(Loss) before taxation			(52,541)
Taxation			<u>(1,026)</u>
(Loss) for the period			<u>(53,567)</u>

3. Other income

	Six months ended 30 June	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest income	<u>26,647</u>	12,865
VAT refund	<u>29,569</u>	19,476
Government subsidies and grants	<u>16,065</u>	13,456
Others	<u>465</u>	738
	<u>72,746</u>	<u>46,535</u>

4. LOSS BEFORE TAXATION

	Six months ended 30 June	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	<u>183,495</u>	106,039
Depreciation	<u>8,975</u>	12,482
Amortisation of other intangible assets	<u>1,853</u>	2,603

5. TAXATION

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Current tax:		
Hong Kong	-	-
PRC Enterprise Income Tax	775	1,554
Deferred taxation	(463)	(528)
	<u>312</u>	<u>1,026</u>

Hong Kong profits tax has been provided at 16.5% on the estimated assessable profits for the period. Enterprise income tax rates applicable to the Group's subsidiaries in the PRC are ranging from 10% - 25%, and have been applied to calculate the Group's PRC Enterprise Income Tax in accordance with relevant laws and regulations in the PRC.

6. (LOSS) / EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000 <i>(restated)</i>
(Loss)/profit from continuing and discontinued operations		
(Loss)/ earnings for the purpose of basic earnings/ (loss) per share ((Loss) / profit for the period attributable to equity holders of the parent)	(53,689)	217,043
Interest on redeemable convertible preferred shares	-	2,869
Fair value change in Preferred Shares classified as liabilities at fair value through profit or loss	-	7,808
(Loss)/Earnings for the purpose of diluted (loss) / earnings per share	<u>(53,689)</u>	<u>227,720</u>
Loss from continuing operations		
Loss for the purpose of basic loss per share (Loss for the period attributable to equity holders of the parent)	<u>(53,689)</u>	<u>(51,140)</u>
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of basic (loss) / earnings per share	901,536	845,488
Effect of dilutive potential ordinary shares		
–share options	-	-
–redeemable convertible preferred shares	-	59,410
Weighted average number or ordinary shares for the purpose of diluted (loss)/ earnings per share	<u>901,536</u>	<u>904,898</u>

7. DISCONTINUED OPERATIONS

AT 30 June 2013, the company has completed the disposal of IT components trading business. Details of disposal of IT components trading business are set out in the announcement dated 16 April 2013 and the circular date 21 May 2013.

The profit for the period from discontinued operation is analysed as follows:

	Six months ended 30 June	
	30.6.2014 <i>HK\$'000</i>	30.6.2013 <i>HK\$'000</i>
Profit of IT components operation for the year	-	43,869
Gain on disposal of IT components operation	-	224,314
	<u>-</u>	<u>268,183</u>

8. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

9. TRADE AND OTHER RECEIVABLES

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

An aged analysis of trade receivables, amounts due from fellow subsidiaries and ultimate holding company at the balance sheet date is as follows:

	30.6.2014 <i>HK\$'000</i>	31.12.2013 <i>HK\$'000</i>
Trade receivables		
0-30 days	145,781	129,638
31-60 days	20,383	69,938
61-90 days	66,891	13,426
91-120 days	55,751	1,510
Over 120 days	29,668	81,190
	<u>318,474</u>	<u>295,702</u>

	30.6.2014 <i>HK\$'000</i>	31.12.2013 <i>HK\$'000</i>
Amounts due from fellow subsidiaries		
0-30 days	76,059	159,798
31-60 days	-	8,458
61-90 days	89	15,434
91-120 days	344	-
Over 120 days	12,036	8,999
	<u>88,528</u>	<u>192,689</u>

9. TRADE AND OTHER RECEIVABLES (CON' T)

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Amounts due from ultimate holding company		
0-30 days	2,922	7,070
31-60 days	13,569	2,269
61-90 days	2,371	-
91-120 days	3,915	-
Over 120 days	95	84
	<u>22,872</u>	<u>9,423</u>

10. TRADE AND BILL PAYABLES

Average credit period taken for trade purchases is up to 30 to 120 days. The following is an aged analysis of trade payables and amount due to fellow subsidiaries and ultimate holding company for the purchase of goods and services at the reporting date:

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Trade and bills payables		
0-30 days	88,762	133,415
31-60 days	9,700	21,841
61-90 days	22,227	9,659
Over 90 days	53,453	23,864
	<u>174,142</u>	<u>188,779</u>

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Amounts due to fellow subsidiaries		
0-30 days	23,466	10,182
31-60 days	12,484	17,059
61-90 days	1,740	3,965
Over 90 days	22,314	15,519
	<u>60,004</u>	<u>54,536</u>

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Amounts due to ultimate holding company		
0-30 days	3,464	843
31-60 days	-	-
61-90 days	116	-
Over 90 days	46	2,259
	<u>3,626</u>	<u>3,102</u>

11. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2014	2,000,000	20,000
Issued and fully paid:		
At 1 January 2014	901,536	9,015
At 30 June 2014	901,536	9,015

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

12. CAPITAL COMMITMENTS

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Capital expenditure in respect of the construction of property contracted for but not provided in the consolidated financial statements	398,014	515,426
Capital expenditure in respect of the construction of property authorized but not contracted for	28,651	76,798

13. RELATED PARTY TRANSACTIONS

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:

		Six months ended	
	Note	30.June.2014 HK\$'000	30.June.2013 HK\$'000
Supply Transactions	(i)	6,064	349,399
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	82,422	64,202
(2) The related commission amount		774	414
Purchase Transactions	(iii)	74,667	41,714
Common Services Transactions	(iv)	4,641	5,420
Processing Transactions	(v)	9,871	9,851

Notes:

- (i) The Inspur group will, with reference to the market price paid by the Group.
- (ii) The Group appoints the Inspur Group to act as selling agency in the sale of the products and services of the Group. In return, the Inspur Group will receive a commission of 1% or less of the total sale value of the products and services.
- (iii) The Group will purchase the computer hardware and software products by the Group from the Inspur Group. The price per unit of the computer products and components purchased from Inspur Group will be agreed between parties with reference to the then prevailing markets prices of such computer hardware and software products at the relevant time.
- (iv) The Inspur Group shall provide Common Services for use the Group based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for provision of similar services.
- (v) Inspur Business System Company Limited ("Inspur Business") has appointed Inspur Cheeloo Company Limited ("Inspur Cheeloo") to provide services of procurement of raw materials of and assembling and manufacturing tax-collection cashier machines at processing fee calculated at 5% of the value of the raw materials (the "Cashier Machines Purchases") and the said rate is comparable to the rates in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

As at the end of June 2013, the Company had disposed of its IT components trading business which was listed as discontinued operations. During the reporting period, the loss from continuing operations attributable to the equity holders of the Company amounted to HK\$53,689,000 (2013: HK\$51,140,000). The amount of loss was roughly the same as the same period last year. However, net operating profit from trading of IT components recognized during the corresponding period of last year amounted to HK\$43,869,000 and the gain from the equity disposal amounted to HK\$224,314,000, resulting in a significant decrease in the operating profit for the period as compared with the corresponding period of last year.

(1) Steady growth of revenue

The revenue from continuing operations of the Group increased by 21.64% to approximately HK\$617,167,000 (2013: HK\$507,375,000) as compared with the corresponding period of last year. The revenue of software development and solution was HK\$495,929,000 (2013: HK\$410,015,000), representing an increase of 20.95% as compared with the last year. The revenue of the software outsourcing business was HK\$121,238,000 (2013: HK\$97,360,000), representing an increase of 24.53% as compared with the last year.

(2) Decrease in profit from operations

During the reporting period, gross profit from continuing operations was approximately HK\$252,119,000 (2013: HK\$234,371,000), representing an increase of 7.57% and a gross profit margin of 40.85% (2013: 46.19%). Net loss from continuing operations was approximately HK\$53,807,000 (2013: HK\$53,567,000). Basic losses per share and diluted losses per share from continuing operations were HK\$5.96 cents (2013: 6.05 cents). Loss per share and diluted earnings per share from continuing and discontinued operations were HK\$5.96 cents (earnings for 2013: HK\$25.65 cents) and HK\$5.96 cents (earnings for 2013: HK\$25.15 cents) respectively.

The loss from continuing operations increased as compared with the corresponding period of last year. The increase was mainly attributable to: 1. fierce competition in the market and the overall weak economic situation during the reporting period, resulting in gross profit of the Group only increased by 7.57% as compared with the corresponding period of last year; and 2. the increase in overall sales and administrative expenses of 25.12% to approximately HK\$390,274,000 (2013: 311,923,000) during the reporting period as compared with the corresponding period of last year, because the Company increased its investment in marketing activities and research and development.

(3) Sufficient working capital

As at 30 June 2014, shareholders' funds of the Group amounted to approximately HK\$1,845,557,000 (31 December 2013: HK\$1,938,151,000). Current assets were approximately HK\$1,936,634,000, including cash and bank balances of HK\$895,083,000, which were mainly bank deposits denominated in Renminbi, US dollars and Hong Kong dollars within three months of maturity when acquired. Current liabilities were HK\$708,755,000, mainly comprised trade payable, amount due to fellow subsidiaries, other payables and accrued expenses, and preferred shares. The Group's current assets were approximately 2.73 times (31 December 2013: 3.25 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2014.

The Directors believe that the Group has sound financial position with sufficient fund to satisfy its capital expenditure and working capital requirements.

Employee information

At 30 June 2014, the Group had 4,110 employees. Total employee remuneration, including the Directors' fees and contributions to the Mandatory Provident Funds, amounted to approximately HK\$265,918,000 for the period under review.

The Group determined the remuneration of its employees according to their performance and experience. In addition to basic salaries, discretionary bonus and share options may be granted to eligible employees with

reference to the Group's results and the employee's individual performance. In addition, the Group has provided its employees with Mandatory Provident Funds and medical insurance coverage.

Charges on assets

As at 30 June 2014, Nil bank deposits of the Group's assets was pledged (31 December 2013:HKD6,500,000).

Foreign exchange exposure

The Group's sales and purchase were mainly denominated in US dollars and Renminbi. The Group did not use any derivative instruments to hedge against its currency exposures. The Directors believe that with its sound financial position, the Group is able to meet its foreign exchange liabilities as and when they become due.

Contingent liabilities

As at 30 June 2014, the Group had no material contingent liabilities (31 December 2013: nil).

BUSINESS REVIEW

In the first half of 2014, the Group seized the favorable opportunities brought forth by the demand for management enhancement from large-scale conglomerates to announce the annual enterprise information technology strategy for the first time. A nationwide tour entitled “Big Data Reconstruct Enterprise Intelligence” was initiated and a recruitment program “Thousand Partners” was launched to focus on exploring business opportunities and implement the market expansion strategy continuously and actively to strengthen comprehensively the four major forces of sales, namely, regional direct sales, vertical industry sales, channel and cooperation partnership and telephone sales. By adhering consistently to the “Professional Leading Strategy”, the Company continued to transform itself into a SaaS (Software as a Service) cloud computing service provider. By centering on the core areas of cloud computing to strengthen technical product innovations, further develop industries with superior advantages and gradually complete optimizing the product portfolio of the Company, it is expected our core competitiveness will be enhanced and new breakthroughs in the related areas of cloud computing will be realized.

The business of IT services of the Group covers various sectors, including corporate governance, telecommunications, pharmaceuticals, construction, taxation, finance, coal, manufacturing and public utilities, and offers integrated IT services on core solutions, such as software and related services and embedded systems, ranging from software applications, IT consultation services, system integration, operation and maintenance, outsourcing and intelligent terminal products.

IT services mainly include the following segments:

(1) Software and related services

In the first half of 2014, by adhering consistently to the operation strategy of focusing on the high-end market of group governance, the Company was among the first to strengthen the research and applications of cloud computing and big data, and conducted research and development (R&D) on products and marketing, covering hot topics such as management accounting, shared financial services and electronic purchasing, to fully implement regional market executive abilities in the industry, improve the sales management system and enhance the market capabilities.

Increase promotional efforts continuously on market expansion: Through the “development of software for 2 major platforms, enhancement of 5 major application products, further development of 10 industries with leading advantages, promoting the implementation of cloud computing for 100 major enterprises and gathering of 1,000 cooperation partners”, a “White Paper on Big Data Reconstruct Enterprise Intelligence” was issued to promote the deep integration, transformation and upgrading of enterprises of the two platforms by way of new thinking, new instruments and new methods. A nationwide tour of marketing and sales exhibition activities in a hundred cities covering 25 provinces and municipalities was initiated, focusing mainly on high-end customers in the industry, and research results were released, encompassing nearly 2,000 target enterprises, to further solidify our high-end advantages and effectively enhance our branding influence and market competitiveness. Meanwhile, strategic cooperation with computerized industry partners such as China Shipbuilding Industry Corporation will be reinforced to jointly expand and strengthen the industry and high-end market. Supportive efforts for cooperation partners will be increased comprehensively to create a sound ecological environment for the industrial chain and maximize the value of cooperation partners.

Reinforcing R&D of new products: Based on the fourth generation information center platform and according to the road map for implementation of cloud computing by enterprises, efforts were exerted on the development of an enterprise custodian cloud, with focus on the development of four common clouds, namely CRM, SRM, HCM and data analysis. The GSP + platform was further improved and used as the base to provide the application platform, cloud service supporting platform, big data analysis platform, integrated e-commerce platform and social platform, in order to enhance existing products, such as GS and PS, comprehensively, and to accelerate the integration of customers with internet, deepen the applications in industries where Inspur enjoyed advantages, such as military industry, construction, manufacturing, pharmaceutical, fast consumer products, etc. By adopting the strategy of combining proprietary R&D with external cooperation, product competitiveness was enhanced by relying on technical innovation, leading edges of the Group in cloud computing and big data were utilized to accelerate the R&D of management accounting products in the big data era, as well as to accelerate the relevant research work and product R&D on “Shared Management”, “E-commerce” and “Big Data and Commercial Analysis”. Reinforcing construction of the operation and maintenance systems: Construction of the operation and maintenance systems was reinforced by centering on product realization, standardization and professional development of services, and on the levels of service coverage, new contract rate and renewal rate. Refreshed planning

for operation and maintenance service products and marketing tools refined the methodology for operation and maintenance services covering service marketing, standardized service payment and service operation management.

With the development of mobile internet and the initiation of LTE network construction, network-oriented OSS will provide a key support for network quality, and network management will focus more on the enhancement of production efficiency and information quality. The Company has achieved certain breakthrough developments in the telecommunications industry during the first half of the year, while larger orders were obtained from major customers, software products and service projects were also delivered smoothly by the Company. In the second half of 2014, investments in the telecommunications industry are expected to keep steady growth.

In future, the Company will continue transforming into a service provider of cloud computing SaaS products and services. IT planning, integrated applications for enterprises and information services under the cloud computing environment will be further explored and promoted, and we will continue to participate in the formulation of standards. The Company will capture early opportunities in the cloud computing market and develop itself into a leading player in cloud computing through further consolidation of effective resources and motivating technological innovations.

(2) Embedded systems and related services

On tax collection equipment, with the implementation of replacing business tax with value-added tax, and the fast development of online billing, the overall size for tax collection cashier machines across the country continued to decline. The Company explored cloud computing solutions for the taxation industry through enhancing the online and intelligent functions of tax collection products in product R&D. In the automatic taxation terminal market, upgrading of new products had been completed to satisfy the diversified needs of taxpayers. The automatic taxation terminals were still facing intensive market competition. In the first half of 2014, the Company continued to drive further progress in the business of cloud computing solutions for the taxation industry, the tax collection business was still in a difficult stage.

In terms of the automatic financial terminal market, the Company further expanded the existing integrated financial solutions and provided customers with comprehensive solutions covering bank service network for banking outlets in different subdivision areas, off-bank service networks and cooperative channels of various banking enterprises. At present, automatic card issuing machines, queuing machines and automatic form-filling machines have successfully entered the purchasing lists of banks and laid a sound foundation for entering into contracts in the second half of the year. The new product VTM has initially researched and developed product versions applicable for four different banks. Inspur's medical banking terminals were successfully included in the supplier list of National Health and Family Planning Commission of the PRC and commenced sales in Henan Province, demonstration points for residents' healthcare card automatic services were also established. The Company aims to further increase its competitiveness in the financial market and profitability through further exploration and development of existing customers and launching of innovative products.

(3) Software outsourcing business

The Group's software outsourcing business mainly includes the provision of IT Outsourcing ("ITO") services, such as system application development, embedded system development, quality assurance and testing; Business Process Outsourcing ("BPO") services, such as data processing, operation and maintenance outsourcing and call center; as well as Product Development Outsourcing ("PDO") services, such as development of software products, intermediary software and platform development; for top 500 global corporations and outstanding IT companies in the world.

In the first half of 2014, the service outsourcing business in the PRC maintained rapid growth. Meanwhile, during the past two years, a number of PRC software outsourcing enterprises listed overseas led to a high tide of privatizations. After alliances were formed between large-scale service outsourcing enterprises, the resulting advantage of economies of scale increased the intensive competition within the industry. Under such this market environment, the Company maintained close cooperation relationship with strategic customers, such as Microsoft, FITEC, NTT DAT, China Unicom and China Mobile, through which the cooperation projects were gradually expanded, while at the same time seeking to exploit the domestic market potential and expanding the business scale in the country. In the first half of 2014, the Company further consolidated the marketing plan of "domestic and overseas development", pursuant to which our overall business segments were rationalized by increasing sales to domestic customers through increasing the business weighting of the PRC region. It is expected the software outsourcing industry will enter a great

era of changes and reforms in future, some large-scale enterprises and local governments of the PRC have already started outsourcing part of the innovative and R&D jobs which are not limited to non-core businesses of the enterprises in terms of conventional meaning. Enterprises are increasingly dependent on outsourcing to realize increases in profit margin and sales revenue, value and innovation oriented developments have become the core trends for the future development of the industry.

BUSINESS PLANNING

In the second half of 2014, the Company will continue to pursue active market expansion strategies by strengthening comprehensively the four major forces of sales, namely, regional direct sales, vertical industry sales, channel and cooperation partnership and telephone sales. The Company will further increase efforts to reinforce the establishment of channels, expand proprietary operation rights and delegation of dominant decision-making authority, and improve the market incentive policies to further enhance the enthusiasm and motivation of various sales institutions. On product R&D, facing improvement and enhancement in our existing core business modules, and expansion of the platform through R&D in future, leading talents in key technologies will be recruited continuously to capture opportunities of R&D contracting and utilize the sharing and precipitation mechanisms in technology. Through implementing the strategy of “template brings about breakthrough” to realize breakthroughs in key technologies and businesses, such as management accounting, big data, cloud computing and customized production and achieve the objectives of “strict performance on both” “conventional business” and “new business innovations”. By proactively motivating its external cooperation, merger and acquisition, the Company will boldly face various challenges and strive for the dominant position in the relevant field of cloud computing.

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

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the 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
Dong Hailong	Beneficial owner	4,000	0.00%

(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\$
Wang Xingshan	Beneficial owner	Share option (note)	1,000,000	3.41
Chen Dongfeng	Beneficial owner	Share option (note)	800,000	3.41
Dong Hailong	Beneficial owner	Share option (note)	400,000	3.41
Sun Chengtong	Beneficial owner	Share option (note)	800,000	3.41
Wong Lit Chor, Alexis	Beneficial owner	Share option (note)	40,000	3.41

Note: On 10 December 2010, the share option were grant to other director under the option scheme.

(C) Short positions in shares and underlying shares of equity derivatives of the Company

As at 30 June 2014, 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

So far as is known to the Directors, as at 30 June 2013, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(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)	288,478,000	31.99%
Inspur Overseas Investment Limited	Beneficial owner	288,478,000	31.99%
WANG Yukun	Beneficial owner	64,744,000	7.18%

Note: Inspur Group Limited is taken to be interested in 288,478,000 shares due to its 100% shareholdings in the issued share capital of Inspur Overseas Investment Limited.

(B) Short positions in shares and underlying shares and equity derivatives of the company

As at 30 June 2014, no persons had short positions in shares or underlying shares of equity derivatives of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2014, 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 2014, 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.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 April 2004. On 10 December 2010, a total of 12,020,000 share options were granted to certain employees and directors of the group under the option scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK\$3.41 per share.

During the reporting period, no option has been granted or agreed to grant under the share option scheme.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive directors, Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Ms. Dai Ruimin. Mr. Wong Lit Chor, Alexis is the chairman of the audit committee.

The audit committee has reviewed the report and has provided advice and comments thereon.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the “Code”) contained in Appendix 14 of Listing Rules for Main Board throughout the period ended 30 June 2014, save as : (a) Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (the “CEO”) should be separated and should not be performed by the same individual. Mr. Wang Xingshan is both the Chairman and CEO of the Company. This structure does not comply with code provision A.2.1 of the CG Code. The Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Company’s business strategies and maximizes the effectiveness of its operation. (b) Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Partial Independent non-executive Directors and other non-executive director were unable to attend the annual general meeting as they were obliged to be away for business trips. The Company will improve its meeting scheduling and arrangement in order to ensure full compliance with Code A.6.7 in future.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model code for Securities Transactions by directors of Listing Issuers (“Model Code”) contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors and has been confirmed that all directors have complied with the Model Code during the six months ended 30 June 2014

By Order of the Board
Inspur International Limited
Wang Xingshan
Chairman

Hong Kong, 27 August 2014

As at the date of this announcement, the Board comprised Mr. Wang Xingshan, Mr. Chen Dongfeng, Mr Sun Chengtong as executive Directors; Mr.Samuel Y.Shen and Mr. Dong Hailong as non-executive Directors; Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Ms. Dai Ruimin as independent non-executive Directors.