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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)

**FINAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

The board of Directors (the “**Board**”) of Inspur International Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2014

	<u>NOTES</u>	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
<b>Continuing operations</b>			
Revenue	2	1,703,128	1,300,980
Cost of sales		(1,148,837)	(857,206)
Gross profit		<u>554,291</u>	<u>443,774</u>
Other income	4	137,186	93,533
Other gains and losses	4	4,855	7,549
Administrative and other operating expenses		(346,202)	(357,127)
Selling and distribution expenses		(372,984)	(304,073)
Finance costs		-	(4,974)
Impairment loss on goodwill		-	(14,491)
Amortisation of other intangible assets		(12,964)	-
Impairment loss on investment in an associate		-	(19,213)
Share of loss (profit) of an associate		(18,821)	9,018
Share of loss of a joint venture		(7,177)	(4,938)
Loss before tax		(61,816)	(150,942)
Income tax expense	6	(8,400)	(1,282)
Loss for the year from continuing operations		(70,216)	(152,224)
<b>Discontinued operation</b>			
Profit for the year from discontinued operation		-	268,183
(Loss) profit for the year		<u>(70,216)</u>	<u>115,959</u>
(Loss) profit for the year attributable to owners of the Company			
- from continuing operations		(69,100)	(150,487)
- from discontinued operation		-	268,183
(Loss) profit for the year attributable to owners of the Company		(69,100)	117,696
Loss for the year attributable to non-controlling interest		(1,116)	(1,737)
		<u>(70,216)</u>	<u>115,959</u>
<b>(Loss) earnings per share</b>			
From continuing and discontinued operations	7		
- Basic		<u>(HK7.66cents)</u>	<u>HK13.81 cents</u>
- Diluted		<u>(HK7.66cents)</u>	<u>HK13.81 cents</u>
From continuing operations	7		
- Basic		<u>(HK7.66cents)</u>	<u>(HK17.65 cents)</u>
- Diluted		<u>(HK7.66cents)</u>	<u>(HK17.65 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014

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	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
(Loss) profit for the year	(70,216)	115,959
<b>Other comprehensive (expense) income:</b>		
<i>Item that will not be reclassified to profit or loss:</i>		
Exchange differences arising from translation to presentation currency	<u>(10,374)</u>	<u>50,217</u>
Total comprehensive (expense) income for the year	<u>(80,590)</u>	<u>166,176</u>
Total comprehensive (expense) income for the year attributable to:		
- Owners of the Company	(79,437)	167,746
- Non-controlling interests	<u>(1,153)</u>	<u>(1,570)</u>
	<u>(80,590)</u>	<u>166,176</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2014

	<u>NOTES</u>	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		522,449	242,710
Investment property		10,518	10,839
Prepaid lease payments		38,503	39,652
Deposits for acquisition for property, plant and equipment		71,152	-
Other intangible assets		-	16,669
Available-for-sale investments		22,669	23,433
Interest in an associate		95,640	122,848
Interest in a joint venture		172,666	118,077
		<u>933,597</u>	<u>574,228</u>
<b>Current assets</b>			
Inventories		55,648	28,271
Trade and bills receivables	9	375,395	295,702
Prepaid lease payments		924	929
Prepayments, deposits and other receivables		69,085	78,632
Amounts due from customers for contract work		28,344	32,987
Entrusted loan receivable		139,598	509,585
Amount due from ultimate holding company		36,036	9,423
Amounts due from fellow subsidiaries		241,554	192,689
Taxation recoverable		113	95
Pledged bank deposits		29,537	15,656
Bank balances and cash		1,015,994	897,467
		<u>1,992,228</u>	<u>2,061,436</u>
<b>Current liabilities</b>			
Trade and bills payables	10	302,047	188,779
Other payables, deposits received and accrued expenses		393,287	265,575
Amounts due to customers for contract work		253,034	104,823
Amount due to ultimate holding company		2,781	3,102
Amounts due to fellow subsidiaries		65,121	54,536
Deferred income - government grant		16,884	11,220
Taxation payable		9,798	6,577
		<u>1,042,952</u>	<u>634,612</u>
Net current assets		<u>949,276</u>	<u>1,426,824</u>
Total assets less current liabilities		<u>1,882,873</u>	<u>2,001,052</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AT 31 DECEMBER 2014

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
Non-current liabilities		
Deferred income - government grant	27,698	40,403
Deferred tax liabilities	<u>20,619</u>	<u>18,402</u>
	<u>48,317</u>	<u>58,805</u>
	<u>1,834,556</u>	<u>1,942,247</u>
Capital and reserves		
Share capital	9,015	9,015
Reserves	<u>1,822,598</u>	<u>1,929,136</u>
Equity attributable to owners of the Company	1,831,613	1,938,151
Non-controlling interests	<u>2,943</u>	<u>4,096</u>
Total equity	<u>1,834,556</u>	<u>1,942,247</u>

## NOTES

### 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

#### APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with customers <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>5</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortization <sup>5</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>5</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 - 2012 Cycle <sup>6</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 - 2013 Cycle <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle <sup>5</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>5</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- <sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- <sup>6</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs but have considered on a preliminary basis that these new and revised HKFRSs will not have a significant impact on the Group's financial statements in the coming year.

## 2. REVENUE

### Continuing operations

Revenue represents revenue arising on sales of software development contracts and software outsourcing contracts. An analysis of the Group's revenue for the year is as follows:

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
Revenue from software development contracts		
- Sales of IT peripherals and software	760,955	535,373
- Software development	692,251	571,335
Revenue from software outsourcing contracts	<u>249,922</u>	<u>194,272</u>
	<u>1,703,128</u>	<u>1,300,980</u>

## 3. SEGMENT INFORMATION

The Group's reportable and operating segments are as follows:

1. Software development and solution
2. Software outsourcing

An operating segment regarding the trading of computer components was discontinued in 2013.

## Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations and reportable and operating segment.

*For the year ended 31 December 2014*

### **Continuing operations**

	Software development and solution HK\$'000	Software outsourcing HK\$'000	Consolidated HK\$'000
Segment revenue	<u>1,453,206</u>	<u>249,922</u>	<u>1,703,128</u>
Segment (loss) profit	<u>(42,433)</u>	<u>14,937</u>	<u>(27,496)</u>
Other income, gains and losses			1,583
Share of loss of an associate			(18,821)
Share of loss of a joint venture			(7,177)
Central administrative costs			<u>(9,905)</u>
Loss before tax (continuing operations)			<u>(61,816)</u>

*For the year ended 31 December 2013*

### **Continuing operations**

	Software development and solution HK\$'000	Software outsourcing HK\$'000	Consolidated HK\$'000
Segment revenue	<u>1,106,708</u>	<u>194,272</u>	<u>1,300,980</u>
Segment (loss) profit	<u>(130,192)</u>	<u>12,396</u>	<u>(117,796)</u>
Other income, gains and losses			(5,796)
Share of profit of an associate			9,018
Share of loss of a joint venture			(4,938)
Impairment loss on investment in an associate			(19,213)
Central administrative costs			<u>(7,243)</u>
Interest expenses			<u>(4,974)</u>
Loss before tax (continuing operations)			<u>(150,942)</u>

Note: All of the segment revenue reported for both years was from external customers.



## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

*At 31 December 2014*

### **Continuing operations**

	<u>Software development and solution</u> HK\$'000	<u>Software outsourcing</u> HK\$'000	<u>Consolidated</u> HK\$'000
<b>ASSETS</b>			
Segment assets	<u>906,088</u>	<u>91,116</u>	997,204
Property, plant and equipment			522,449
Investment property			10,518
Interest in an associate			95,640
Interest in a joint venture			172,666
Bank balances and cash			991,375
Prepaid lease payments			39,427
Other unallocated assets			<u>96,546</u>
Consolidated total assets			<u>2,925,825</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>955,756</u>	<u>60,366</u>	1,016,122
Taxation payable			9,798
Deferred tax liabilities			20,619
Other unallocated liabilities			<u>44,730</u>
Consolidated total liabilities			<u>1,091,269</u>

Segment assets and liabilities - continued

At 31 December 2013

**Continuing operations**

	Software development <u>and solution</u> HK\$'000	Software <u>outsourcing</u> HK\$'000	<u>Consolidated</u> HK\$'000
<b>ASSETS</b>			
Segment assets	1,047,093	94,570	1,141,663
Property, plant and equipment			240,402
Investment property			10,839
Interest in an associate			122,848
Interest in a joint venture			118,077
Bank balances and cash			874,788
Prepaid lease payments			40,581
Other unallocated assets			86,466
Consolidated total assets			<u>2,635,664</u>
<b>LIABILITIES</b>			
Segment liabilities	633,908	14,765	648,673
Taxation payable			5,582
Deferred tax liabilities			12,063
Other unallocated liabilities			27,099
Consolidated total liabilities			<u>693,417</u>

Other segment information

For the year ended 31 December 2014

**Continuing operations**

Amounts included in the measure of segment profit or segment assets:

	Software development <u>and solution</u> HK\$'000	Software <u>outsourcing</u> HK\$'000	<u>Total</u> HK\$'000	<u>Unallocated</u> HK\$'000	<u>Consolidated</u> HK\$'000
Additions to property, plant and equipment	9,898	544	10,442	290,239	300,681
Depreciation of property, plant and equipment	17,586	728	18,314	263	18,577
Amortisation of other intangible assets	-	3,705	3,705	-	3,705
Impairment loss on amounts due from customers for contract work	18,287	-	18,287	-	18,287
Amortisation of other intangible assets	-	12,964	12,964	-	12,964
Write-down of inventories	2,784	-	2,784	-	2,784
Allowance for bad and doubtful debts	36,347	-	36,347	-	36,347

For the year ended 31 December 2013

## Continuing operations

Amounts included in the measure of segment profit or segment assets:

	Software development <u>and solution</u> HK\$'000	Software <u>outsourcing</u> HK\$'000	<u>Total</u> HK\$'000	<u>Unallocated</u> HK\$'000	<u>Consolidated</u> HK\$'000
Additions to property, plant and equipment	5,598	831	6,429	152,441	158,870
Depreciation of property, plant and equipment	25,586	810	26,396	263	26,659
Amortisation of other intangible assets	1,862	3,706	5,568	-	5,568
Impairment loss on goodwill	14,491	-	14,491	-	14,491
Impairment loss on amounts due from customers for contract work	6,105	-	6,105	-	6,105
Write-down of inventories	7,638	-	7,638	-	7,638
Allowance for bad and doubtful debts	26,912	-	26,912	-	26,912

## Geographical information

The Group's operations are currently carried out in the PRC (excluding Hong Kong), the country of domicile, and Hong Kong except for some services rendered by the provision of outsourcing software development services division which are located in other regions.

Information about the Group's revenue from continuing operations from external customers is presented based on location of markets or customer irrespective of the origin of the services. Information about the Group's non-current assets\* by geographic location of assets:

	Revenue from <u>external customers</u>		<u>Non-current assets*</u>	
	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
Hong Kong	-	-	19,122	19,707
The PRC (excluding Hong Kong), (country of domicile)	1,541,021	1,151,147	891,361	526,983
Others	162,107	49,833	445	4,105
	<u>1,703,128</u>	<u>1,300,980</u>	<u>910,928</u>	<u>550,795</u>

\* Non-current assets excluded those relating to available-for-sale investments.

#### 4. OTHER INCOME AND OTHER GAINS AND LOSSES

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
<b>Continuing operations</b>		
<b>Other income:</b>		
Interest income on bank deposits	32,345	26,922
Interest income on entrusted loan receivable	13,657	2,000
Value added tax refund (Note a)	72,680	56,349
Government subsidies and grants (Note b)	16,644	8,190
Dividend income from available-for-sale investments	1,640	-
Others	220	72
	<u>137,186</u>	<u>93,533</u>
<b>Other gains and losses:</b>		
Net foreign exchange gain	184	2,172
Net (loss) gain and written off on disposal of property, plant and equipment	(103)	645
Fair value change in conversion option derivatives embedded in redeemable convertible preferred shares	-	(11,145)
Gain on disposal of assets of digital media business (Note c)	-	12,149
Gain on disposal of a subsidiary (Note d)	287	-
Others	4,487	3,728
	<u>4,855</u>	<u>7,549</u>

Included above is income from unlisted investments of HK\$1,640,000 (2013: nil).

Notes:

- (a) Inspur (Shandong) Electronic Information Company Limited ("Inspur Shandong Electronic"), Inspur Communication Information System Limited ("Inspur Communication"), Shandong Inspur Commercial System Company Limited ("Inspur Commercial System") and Inspur Group Shandong Genersoft Incorporation ("Inspur Genersoft") are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, it is entitled to a refund of VAT paid for sales of self-developed software in the PRC.
- (b) For the year ended 31 December 2014, the amount of approximately HK\$16,042,000 (2013: HK\$6,917,000) represents the subsidies received from the PRC Government for the purpose of encouraging the development of group entities engaged in new and high technology sector. The subsidies received are in substance a kind of immediate financial support to the group's entities with no future related costs and recognised as income when the approval of the relevant government authority has been obtained. There are no other conditions attached to the subsidies granted to the Group.

For the year ended 31 December 2014, the amount of approximately HK\$602,000 (2013: HK\$1,318,000) represents the grants from the Government for funding of some feasibility studies which benefits the society as a whole. The grants received are recognised as income when the related feasibility studies have been completed and the approval of the relevant Government authority has been obtained.

- (c) On 22 August 2014, the Group and 浪潮軟件集團有限公司 Inspur Software Group Company Limited\* ("Inspur Software"), previously known as 浪潮齊魯軟件產業有限公司 Inspur Cheeloo Software Industry Company Limited\* ("Inspur Cheeloo") entered into an

agreement, pursuant to which the Group agreed to sell and Inspur Cheeloo agreed to acquire the assets of digital media business of the Group for a total consideration of RMB30,000,000 (equivalent to approximately HK\$37,430,000). A gain of HK\$12,471,000 was recognised on disposal of such assets during the year ended 31 December 2013.

- (d) On 28 August 2014, the Group and Inspur Software entered into an agreement, pursuant to which the Group agreed to sell and Inspur Software agreed to acquire the entire share equity of the Inspur Commercial for a total consideration of RMB30,000,000 (equivalent to approximately HK\$37,433,000). A gain of HK\$287,000 was recognised on such disposal during the year ended 31 December 2014.

\* English name is for identification purpose only.

## 5. LOSS FOR THE YEAR

### Continuing operations

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
Loss for the year has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts	36,347	26,912
Reversal of allowance for bad and doubtful debt	(2,737)	(4,561)
Impairment loss on amounts due from customers for contract work	18,287	6,105
Impairment loss on goodwill	-	14,491
Impairment of other intangible assets	12,964	-
Research and development costs recognised as an expense	112,450	96,712
Auditor's remuneration	2,000	2,000
Cost of inventories recognised as expenses in cost of sale (including write-down of inventories of HK\$2,784,000 (2013: HK\$7,638,000))	554,660	266,845
Depreciation for property, plant and equipment	18,577	26,659
Depreciation for investment property	321	321
Amortisation of other intangible assets (including in selling and distribution expense)	3,705	5,568
Gross rental income from investment property	(644)	(322)
Amortisation of prepaid lease payments	924	917
Less: Prepaid lease payments capitalised into construction in progress	(924)	(917)
	-	-
Directors' remuneration	3,188	2,945
Other staff costs		
Salaries and other benefits	582,211	487,540
Retirement benefits scheme contributions	95,847	93,288
	681,246	583,773
Interest expense on redeemable convertible preferred shares wholly repayable within five years	-	4,974
Operating lease rentals in respect of office premises and staff quarters	23,960	21,389

## 6. TAXATION

### Continuing operations

	<u>2013</u> HK\$'000	<u>2013</u> HK\$'000
Current tax:		
PRC Enterprise Income Tax	7,099	1,241
(Over)underprovision in prior years:		
PRC Enterprise Income Tax	(916)	781
Deferred taxation	<u>2,217</u>	<u>(740)</u>
	<u>8,400</u>	<u>1,282</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The statutory tax rate for PRC Enterprise Income Tax of 25% is applied to the Group's PRC subsidiaries except for Inspur Communication, Inspur Commercial and Inspur Genersoft. Inspur Communication, Inspur Commercial and Inspur Genersoft are recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15%. The entitlement of this tax benefit is subject to renew by respective tax bureau in the PRC every three years. The latest approval for all of the PRC subsidiaries enjoying this tax benefit were obtained in year 2014.

Pursuant to the Notice of Ministry of Finance and the State Administrative of Taxation concerning certain preferential policies on enterprise income tax <<財稅[2000]25 號<財政部、國家稅務總局、海關總署>關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知>>第二條, Inspur Guoyou (Shanghai) Services Incorporation("Worldwide Shanghai"), which was recognised as "Software Enterprise", is exempted from PRC Enterprise Income Tax for two years starting from its respective first profit-making years, followed by a 50% reduction for the next three years. The first profit-making year for Worldwide Shanghai is the fiscal year 31 December 2009. The 50% tax reduction for Worldwide Shanghai was ended in 2013.

The implementation of the EIT Law has no impact on the tax relief granted to the PRC subsidiaries.

## 7. (LOSS) EARNINGS PER SHARE

### From continuing and discontinued operations

The calculations of the basic and diluted (loss)earnings per share attributable to the owners of the Company are based on the (loss)profit for the year attributable to owners of the Company and on the number of shares as follows:

	<u>2014</u> <u>'000</u>	<u>2013</u> <u>'000</u>
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>901,536</u>	<u>852,398</u>

The computation of diluted loss per share for 2014 does not assume the exercise of the Company's options since the exercise price of those options was higher than the average market price for shares for 2014.

The computation of diluted earnings per share for 2013 does not assume the conversion of the Company's outstanding redeemable convertible preferred shares since their exercise would result in a decrease loss per share for 2013 from continuing operations. The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for 2013.

### From continuing operations

The calculation of basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	<u>2014</u> <u>HK\$'000</u>	<u>2013</u> <u>HK\$'000</u>
(Loss) profit figures are calculated as follows:		
(Loss) profit for the year attributable to the owners of the Company	(69,100)	117,696
Less: Profit for the year from discontinued operations	<u>-</u>	<u>268,183</u>
Loss for the purposes of basic and diluted loss per share from continuing operations	<u>(69,100)</u>	<u>(150,487)</u>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

### From discontinued operations

Basic earnings per share for the discontinued operation is nil per share (2013: HK\$31.46 cents per share). Diluted earnings per share for the discontinued operation is nil per share (2013: HK\$29.64 cents per share).

## 8. DIVIDEND

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
Dividends recognised as distribution during the year:		
2013 final dividend - HK\$0.03		
(2013: 2012 final dividend - HK\$0.03) per share	<u>27,101</u>	<u>25,365</u>

Subsequent to the end of the reporting period, a final dividend of HK\$0.03 in respect of the year ended 31 December 2014 (2013: final dividend of HK\$0.03 in respect of the year ended 31 December 2013) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 9. TRADE AND BILLS RECEIVABLES

The Group allows a credit period of 30 to 210 days (2013: 30 to 210 days) to its customers. The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
0 to 30 days	153,109	129,638
31 to 60 days	86,534	69,938
61 to 90 days	23,697	13,426
91 to 120 days	19,711	1,510
121 to 180 days	27,249	17,918
Over 180 days	<u>65,095</u>	<u>63,272</u>
	<u>375,395</u>	<u>295,702</u>

## 10. TRADE AND BILLS PAYABLES

The averaged credit period taken for trade purchases is 30 to 120 days (2013: 30 to 210 days). The following is an aged analysis of trade and bills payables for the purchase of goods and services received presented based on the invoice date at the end of the reporting period.

	<u>2014</u> HK\$'000	<u>2013</u> HK\$'000
Trade and bills payables		
0 - 30 days	224,293	133,415
31 - 60 days	40,358	21,841
61 - 90 days	18,827	9,659
Over 90 days	<u>18,569</u>	<u>23,864</u>
	<u>302,047</u>	<u>188,779</u>



## FINANCIAL REVIEW

During the year ended 31 December 2014, the revenue of the Group from continuing operations recorded an increase of approximately 30.91% as compared with last year; gross profit of the Group from continuing operations recorded an increase of approximately 24.90% as compared with last year, net loss from continuing operations recorded a decrease of approximately 54.08% as compared with last year.

### **(1) Revenue from continuing operations**

The Group recorded a revenue of HK\$1,703,128,000 (2013: HK\$1,300,980,000) representing an increase of 30.91% as compared with last year. The revenue of software development and solution in IT service for the year was HK\$1,453,206,000 (2013: HK\$1,106,707,000), representing an increase of 31.31% as compared with last year; On the other hand, the software outsourcing business in IT service was HK\$ 249,922,000(2013: HK\$194,272,000), representing an increase of 28.65% as compared with last year. The revenue of sales of IT peripherals and purchased software were HK\$760,955,000 (2013: HK\$535,373,000), representing an increase of 42.14% as compared with last year. The revenue from self-developed software was HK\$692,251,000 (2013: HK\$571,335,000), was recorded an increase of 21.16% as compared with last year.

### **(2) Gross profit from continuing operations**

Gross profit of the Group was HK\$554,291,000 for the year (2013: HK\$443,774,000), representing an increase of 24.90% as compared with last year. The Group's consolidated gross profit margin was 32.55 % (2013: 34.11%) for the year decreased 1.56%. The year-to-year decrease in gross profit margin was mainly due to fierce competition in the software development industry.

### **(3) Selling and distribution cost and administrative expenses from continuing operations**

During the year, selling and distribution cost and administrative expenses amounted to HK\$719,186,000(2013: HK\$661,200,000), representing an increase of 8.77% as compared with last year. The increase was mainly due to the increase in research and development ("R&D") costs and marketing expenses. In particular, the staff cost of Company overall increased significantly.

### **(4) Other incomes and other gains and losses from continuing operations**

During the year, the other incomes and other gains and losses amounted HK\$142,041,000(2013: HK\$101,082,000)recorded an increased 40.52%as compared with last year mainly due to reducing in loss of fair valuation on preferred shares and increase in tax refund and interest income from entrusted loan.

### **(5) Profit attributable to shareholders**

Net loss attributable to shareholders for the year from continuing and discontinued operations was approximately HK\$69,100,000 (2013: Profit of HK\$117,696,000), representing a significant decreased as compared with last year. The gain on disposal of discontinued operations in the amount of HK\$268,183,000 in 2013.

Net loss attributable to shareholders for the year from continuing operations was approximately HK\$69,100,000 (2013: loss of HK\$150,487,000), representing a significant improvement as compared with last year. The Company incurred loss from continuing operations in 2014 mainly because: (1) the Company actively increased its spending on R&D and marketing expenses, which resulted in a significant year-on-year increase in selling and distribution cost and administrative expenses of approximately HK\$57,986,000; (2) nil valuation loss on goodwill impairment and long-term investment impairment for the year (2013: HK\$33,704,000); (3) the loss from continuing operations was due to fierce competition in the software development industry and the increase gross margin was insufficient to cover the increased

expenses.

Basic and diluted loss per share from continuing operations and discontinued operations were HK7.66 cents (2013: profit of HK13.81 cents). Basic and diluted loss per share from continuing operations were HK7.66 cents (2013: loss of HK17.65 cents).

## **(6) Financial resources and liquidity**

As at 31 December 2014, shareholder's equity of the Group amounted to HK\$1,831,613,000 (31 December 2013: HK\$1,938,151,000). Current assets amounted to HK\$1,992,228,000, of which HK\$1,015,950,000 was bank deposits and cash balance which were mainly denominated in Renminbi.

Current liabilities, including trade and bills payables, other payables and accrued expenses amounted to HK\$1,042,952,000. The Group's current assets were around 1.91times over its current liabilities (31 December 2013: 3.25times).

As at 31 December 2014, the Group had no bank borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

All of the Group's purchase and sales are mainly denominated in United States Dollars and Renminbi. The Group has not used any derivative instrument 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**

The Group was named as a defendant in a lawsuit filed for potential breach of contract with a supplier. The plaintiff has filed judicial claim against the Group and asks for damages of approximately HK\$10,095,000. The Company vigorously defended this matter. While the outcome of this litigation matter cannot be predicted with certainty, the Directors do not believe that the outcome of any of these matters, individually or in the aggregate, will result in losses that are material to the consolidated financial statements. Accordingly, no accrual has been made for this lawsuit.

## **CAPITAL STRUCTURE**

The Group finances its operations mainly from shareholder equity, internal generated funds and operation results in current year.

## **ACQUISITIONS AND DISPOSAL**

On 30 June 2013, the company has completed the disposal of IT components trading business at a consideration of HK \$ 294,230,000. On 30 October 2013, the company has completed the disposal of assets related to digital media business at a consideration of RMB \$ 30,000,000 (equivalent to approximately HK\$37,430,000).

On 28 August 2014, the Group disposed of the total equity of Inspur Commercial Business at a consideration of RMB30,000,000 (equivalent to approximately HK\$37,433,000).

## **EMPLOYEE INFORMATION**

As at 31 December 2014, the Group employed 4,325 employees (2013: 3,999).

Total employee remuneration, including directors' remuneration and mandatory provident fund contributions of continuing operations, amounted to approximately HK\$681,246,000 (2013: approximately HK\$583,773,000).

According to a comprehensive remuneration policy, which was formulated by the Group and reviewed by the management, employees are remunerated based on their performance and experience. On top of basic salaries, discretionary bonus and share options may be granted to eligible employees with reference to the Group's and the employee's performance. In addition, the Group provides mandatory provident fund, medical and insurance schemes for employees. The Group also offers continuous education and training programmes to the management and other employees to enhance their skills and knowledge.

On 10 December 2010, 12.02 million options granted under 2008 Share Option Scheme to our senior management and top R&D employees to encourage our staff create and share value without shareholders. By the end of year, 12,020,000 options were vested but not exercised.

## **CHARGES ON ASSETS**

As at 31 December 2014, none of the Group's assets was pledged (31 December 2013: Nil).

## **BUSINESS REVIEW**

In 2014, the Group seized the favorable opportunities to expand the market with demand from our large-scale customers, and announce the annual enterprise information technology strategy for the first time. In order to strengthen our marketing ability to realize the stable growth of software business, a nationwide tour entitled "Big Data Reconstruct Enterprise Intelligence" was initiated and a recruitment program named "Thousand Partners" was launched to focus on exploring business opportunities and implementing the market expansion strategy continuously and actively. By adhering consistently to the "Professional Leading Strategy", the Company continued to transform and upgrade itself into a SaaS (Software as a Service) cloud computing solution provider. By centering on the core areas of cloud computing, we strengthen technical product innovations, further develop in areas with superior advantages and gradually complete optimizing the product portfolio. 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, finance, coal, manufacturing and public utilities, and integrated IT services on core solutions, such as software and related services and embedded systems, software applications, IT consultation services, system integration, operation and maintenance, outsourcing and intelligent terminal products.

IT services business mainly includes:

### **(1) Software and related services**

In 2014, the Group focuses on research, applications, and marketing development in cloud computing, big data mainly around five areas such as the management accounting, financial shared services, e-procurement, business data analysis etc. Our work was to fully implement our marketing execution ability in regional and industry and enhance management control in process of marketing, promotion and sales.

Continue to enhance the marketing expansion: The company started up the plan named "Big data helps reconstruction business intelligence" and executed nationally. The tour of plan covers Shandong, Hebei, Tianjin, Jiangsu, Guangzhou, Henan, Shanxi, Zhejiang, Jilin, Beijing, etc, more than 20 provinces and cities of our country. Through implementation of this plan, more than 3000 medium-sized corporate customers actively participated. Through successful participation in SAC 2014 CIO annual meeting and

other activities, we strengthen our market influence and brand awareness. At the same time, through a series of these kind activities such as the National partners' meeting, channel partner's recruitment meeting and activities organized with channel partners called "PS management practices in China, one hundred city speaking tour", the Group expand market depth and width. Continuing promotions in the central enterprises and large conglomerates market, we successfully signed contracts with China Power Construction, China can build, China Tower, China spinning, China Energy Conservation and Environmental Protection Group, China Electric Division and other large customers

Strengthen research and development of new products: Costumers' needs in cloud computing and big data services bring new market demand and growth. Lean business management and innovation management model brought new space for enterprise management software market. In 2014, taking advantage in experience in management accounting industry, our new product "profit center accounting 6.0" was released. The new product, core function as management accounting system, includes modules such as the overall budget, strategic cost management, profit center accounting and internal reporting, to help our users improve working capital management and master data management (MDM). And later on released PSV11.0, strengthen fine management. Combining with cloud computing, big data, innovative Internet applications and other new technologies, marketing for enterprise cloud applications falls into three levels: enterprise cloud application platform, enterprise cloud applications and industry applications. With the continuous R&D and release of new product and versions such as HCM cloud, financial shared center system, data and business analysis system, the development of large platform, GSP platform for big data, mobile applications, internet applications support capabilities etc, further enhances our core competitiveness of our products in the market. Our new medicine GSP recognition system products which applied in En-hua, Deyuan, Henrui, Dikang and other client got the GPS certified by the pharmaceutical sector.

Improve the implementation of the service system: The Group builds up and improves systems around how to standardize, specialize and productize our services. The Group sets up systems to assess the service efficiency, such as service coverage, success rate of new customers, renewal rate etc, to strengthen our operation and maintenance service. We improve our services in many ways, such as re-planning of the operation and maintenance service offerings and marketing tools, promotions on cloud desktop services, providing experts' services of our headquarters to each our desktop users. Gradually we deliver our specialization, diversification and intelligent development to our customers and bring them a new Internet service experience.

With the launch of the development of mobile Internet and LTE network construction, market competition increasingly fierce traditional telecommunications industry, telecommunications operators are challenged, significantly reducing investment in traditional business-oriented network of OSS is to protect the quality of the main support network NMS pay more attention to production efficiency and data quality improvement. The company in 2014 strengthen the implementation of the project cycle management, long faced payment cycle, with industry players ALTs and other difficulties. Future, the company will continue to advance towards cloud computing SaaS product and service providers in transition, to explore and promote the communications industry cloud environment solutions business, continue to improve the standardization and project management software product.

## **(2) Embedded systems and related services**

In the second half of 2014, the company completed the sale of the equity interest in tax control equipment. Now our embedded systems and related services are mainly applied in the financial industry. In the financial self-service terminal market, the company further developed and launched new products for financial industry, such as providing customers total online and offline solution among different line type of bank retails covering the different partitions and a variety of bank-enterprise cooperation pipeline

comprehensive solution, the new product VTM which launched in four different versions for different banks application convenience; new desktop, vertical billing stand-alone product; the wisdom of banking outlets launched solutions.

In silver medical card business, our company seizes the opportunity to promote residents' health card and self-help solutions to Beijing, Liaoning, Henan, Shanxi, Sichuan and other provinces and successfully got bulk sales. It laid a good foundation for future follow-up marketing opportunities for self-help solution and residents' health card. Through our new innovation products and service, we influence and catch the potential customers to further increase the competitiveness as well as profitability. In marketing aspect, we actively expand to the Bank of China, Agricultural Bank of China, Bank of China, Construction Bank with self-service terminals and wisdom bank outlets selling integrated solutions and products;

### **(3) Software outsourcing business**

The Group's outsourcing business, mainly cooperates with Fortune 500 companies, provides services and products including outstanding IT enterprise systems application development, embedded systems development, quality assurance and other testing information technology outsourcing (ITO, IT Outsourcing) services, data processing, transportation Vito pipe, call center and other business process outsourcing (BPO, Business Process Outsourcing) services, and software products, software and development platform development agency (PDO, Product Development Outsourcing) services

2014, outsourcing business maintains sustained growth in China. Since the industry's large service outsourcing companies get the synergy advantages through joined forces, the industry becomes more and more competitive. In this market environment, the company keeps a close working relationship and long-term cooperation with the Microsoft, FITEC, NTT DAT, China Unicom, China Mobile and other strategic clients, and gradually expands cooperation projects. At same time, we expand domestic business scale. The company, in 2014, further consolidates international and domestic market in the field by increasing the proportion of China's business district. The company's overall business segment is more reasonable. Software outsourcing industry now into the next era of great change, large enterprises, Chinese local governments have begun to outsource some of the innovation and R & D work, not just in the traditional sense for the company's non-core business outsourcing. The core of future industry trends and business model of outsourcing company will certainly rely on profits rate and revenue deepening, value and innovation-oriented development at same time.

## **BUSINESS PLANNING**

In 2015, the company will continue to implement proactive market expansion strategies to further strengthen efforts to market channel construction, increase autonomy and decentralized decision-making, improve market incentives, to further enhance the enthusiasm and initiative of each sales organization. In product development aspect, the current focus is still on core product improvement and upgrade, increase research and development on platform. The continuing recruitment of key technology leaders and focus on developing cloud service. Realize the "traditional software business" and "New Business Innovation" business targets. We will actively promote international cooperation, conduct more mergers and acquisitions, and strive to achieve in the leading position of cloud computing and related field in near future.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares during the year.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Group 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 31 December 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. Independent non-executive Directors 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; (c) Code Provision A.1.1 requires that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the Year, two regular Board meetings and one irregular Board meeting were held. Although the Board meetings held during the Year were not convened on a quarterly basis, the Board considered Those sufficient meetings had been held as business operations were under the management and the supervision of the executive Directors;(d) Code Provision A.2.7 requires that the chairman of the Board (the “**Chairman**” or the “**Chairman of the Board**”) should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Although the Chairman did not hold a meeting with the non-executive Directors without the presence of executive Directors during the Year, he delegated the secretary of the Company to gather any concerns and/or questions that the non-executive Directors and the independent non-executive Directors might have and report to him for setting up follow-up meetings, whenever necessary, in due course.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the “Model Code”) set out in Appendix 10 of Main Board Listing Rule as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirement set out under the Model Code throughout the period ended 31 December 2014.

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed the Group’s annual results for the year ended 31 December 2014, including the accounting principles and practices adopted by the Group, and are of the opinion that the preparation of such results comply with applicable accounting standards and requirements, and that adequate disclosures have been made.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed during the following periods:

- (i) The register of members will be closed from 21 May 2015 to 22 May 2015 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor room 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 May 2015.
- (ii) The register of members will be closed on 5 June 2015, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17 Floor room 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 4 June 2015.

By Order of the Board  
**Inspur International Limited**  
*Wang Xingshan*  
Chairman

Hong Kong, 26 March 2015

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