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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 2016**

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 2016 together with comparative unaudited figures for the corresponding period in 2015. 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	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited) (restated)
Continuing operations			
Revenue	2	521,703	432,175
Cost of sales		<u>(368,862)</u>	<u>(311,037)</u>
Gross profit		152,841	121,138
Other income	3	58,918	33,620
Increase in fair value of investment properties		3,059	
Administrative and other operating expenses		(137,329)	(105,713)
Selling and distribution expenses		(89,510)	(79,081)
Share of profit of associates		<u>7,831</u>	<u>21,589</u>
Loss before taxation	4	(4,190)	(8,447)
Taxation	5	<u>(798)</u>	<u>(9,278)</u>
Loss for the period from Continuing operations		<u>(4,988)</u>	<u>(17,725)</u>
Discontinued operations			
Profit for the period from discontinued operations	7	<u>-</u>	<u>18,611</u>
		<u>(4,988)</u>	<u>886</u>
(Loss) profit for the period attributable to owners of the Company			
- from continuing operations	6	(5,179)	(16,698)
- from discontinued operations		<u>-</u>	<u>18,611</u>
(Loss) profit for the period attributable to owners of the Company		(5,179)	1,913
Profit (Loss) for the period attributable to non-controlling interest		<u>191</u>	<u>(1,027)</u>
		<u>(4,988)</u>	<u>886</u>
(Loss) earnings per share from continuing and discontinued operations			
Basic		<u>(0.57) cents</u>	<u>0.21 cents</u>
Diluted		<u>(0.57) cents</u>	<u>0.21 cents</u>
Loss per share from continuing operations			
Basic		<u>(0.57) cents</u>	<u>(1.85) cents</u>
Diluted		<u>(0.57) cents</u>	<u>(1.85) cents</u>

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

Six months ended 30 June

2016

2015

HK\$'000

HK\$'000

(unaudited)

(unaudited)

Net (loss) profit for the period from continuing and discontinuing operations	(4,988)	886
Item that may not be reclassified to profit or loss		
Other Comprehensive (expenses) Income:		
Exchange Difference arising on translation	(40,727)	7,183
Gain on revaluation upon transfer from property, plant and equipment to investment properties	55,351	
Deferred tax on revaluation upon transfer from property, plant and equipment to investment properties	(13,124)	
Total Comprehensive Income for the period	<u>(3,488)</u>	<u>8,069</u>
Total comprehensive (expenses)income attributable to:		
Owners of the Company	(3,582)	9,092
Minority interests	94	(1,023)
	<u>(3,488)</u>	<u>8,069</u>

CONDENSED CONSOLIDATED OF FINANCIAL POSITION (UNAUDITED)

	<i>Notes</i>	30.6.2016 HK\$'000 <i>(unaudited)</i>	31.12.2015 <i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment		486,825	505,788
Investment property		321,828	269,255
Prepaid lease payments		34,358	35,564
Available-for-sale Investment		20,984	21,454
Interests in associates		143,945	127,679
Interest in a jointly venture		150,529	166,024
		1,158,469	1,125,764
Current assets			
Inventories		9,958	1,945
Trade and bills receivables	9	109,742	116,198
Prepaid lease payments		855	874
Prepayments, deposits and other receivables		82,147	51,108
Amounts due from customers for contract work		25,526	26,073
Entrusted loans receivable		341,772	-
Amount due from ultimate holding company	9	2,489	1,166
Amount due from fellow subsidiaries	9	207,426	143,833
Pledged bank deposits		14,368	14,994
Bank balances and cash		561,776	1,095,218
		1,356,059	1,451,409
Current liabilities			
Trade and bills payables	10	105,531	134,164
Other payables, deposits received and accrued expenses		436,934	470,169
Amounts due to customers for contract work		114,795	117,858
Amount due to ultimate holding company	10	780	1,095
Amount due to fellow subsidiaries	10	36,330	43,592
Deferred Income- government grant		-	12,118
Taxation payable		33,515	10,425
		727,885	789,421
Net current assets		628,174	661,988
Total assets less current liabilities		1,786,643	1,787,752
Non-current liabilities			
Deferred income-government grant		32,538	28,074
Deferred tax liabilities		31,564	19,753
		64,102	47,827
		1,722,541	1,739,925

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

	<i>Notes</i>	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Capital and reserves			
Share capital	11	9,015	9,015
Reserves		<u>1,712,267</u>	<u>1,729,745</u>
Equity attributable to owners of the Company		1,721,282	1,738,760
Minority interests		<u>1,259</u>	<u>1,165</u>
Total equity		<u><u>1,722,541</u></u>	<u><u>1,739,925</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital HK\$'000	Share Premium HK\$'000	Special Reserve HK\$'000	other reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Retained profits (loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2015	<u>9,015</u>	<u>953,077</u>	<u>92</u>	<u>13,443</u>	<u>22,623</u>	<u>237,528</u>	<u>595,835</u>	<u>1,831,613</u>	<u>2,943</u>	<u>1,834,556</u>
Exchange differences arising from translation of overseas operation	—	—	—	—	—	7,179	—	7,179	4	7,183
Profit(loss) for the period	—	—	—	—	—	—	1,913	1,913	(1,027)	886
Total recognise profit (loss) for the period	—	—	—	—	—	7,179	1,913	9,092	(1,023)	8,069
Dividend payable	—	—	—	—	—	—	(27,046)	(27,046)	—	(27,046)
At 30 June 2015	<u>9,015</u>	<u>953,077</u>	<u>92</u>	<u>13,443</u>	<u>22,623</u>	<u>244,707</u>	<u>570,702</u>	<u>1,813,659</u>	<u>1,920</u>	<u>1,815,579</u>
At 1 January 2016	<u>9,015</u>	<u>953,077</u>	<u>92</u>	<u>(2,634)</u>	<u>40,550</u>	<u>153,974</u>	<u>584,686</u>	<u>1,738,760</u>	<u>1,165</u>	<u>1,739,925</u>
Exchange differences arising from translation of overseas operation	—	—	—	—	—	(40,630)	—	(40,630)	(97)	(40,727)
Profit(loss) for the period	—	—	—	—	—	—	(5,179)	(5,179)	191	(4,988)
Recognition of fair value of Investment property	—	—	—	42,227	—	—	—	42,227	—	42,227
Recognition of Share option	—	—	—	—	13,150	—	—	13,150	—	13,150
Dividend payable	—	—	—	—	—	—	(27,046)	(27,046)	—	(27,046)
Total recognise equity for the period	—	—	—	42,227	13,150	(40,630)	(32,225)	(17,478)	94	(17,384)
At 30 June 2016	<u>9,015</u>	<u>953,077</u>	<u>92</u>	<u>39,593</u>	<u>53,700</u>	<u>113,344</u>	<u>552,461</u>	<u>1,721,282</u>	<u>1,259</u>	<u>1,722,541</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(91,254)	(132,026)
NET CASH USED IN FROM INVESTING ACTIVITIES	(391,930)	(162,145)
NET CASH USED IN FINANCING ACTIVITIES	(27,046)	(27,046)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(510,230)	(321,217)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,095,218	1,015,994
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(23,212)	3,970
CASH AND CASH EQUIVALENT AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>561,776</u>	<u>698,747</u>

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 2016. 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 development and solution and software outsourcing. An operation regarding to the communications industry solutions business and financial business was completed disposal in the last corresponding period (“Discontinued Operations”). 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:

Continuing Operations

Segment revenues and results for the six months ended 30 June 2016

	Information technology services		Total <i>HK\$'000</i>
	Software development and solution <i>HK\$'000</i>	software outsourcing <i>HK\$'000</i>	
Revenue	<u>359,647</u>	<u>162,056</u>	<u>521,703</u>
Segment results	<u>8,293</u>	<u>(1,647)</u>	6,646
Unallocated income			14,740
Unallocated corporate expense			(33,407)
Share of results of associates			<u>7,831</u>
(Loss) before taxation			(4,190)
Taxation			<u>(798)</u>
(Loss) for the period			<u>(4,988)</u>

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

Segment revenues and results for the six months ended 30 June 2015

	Information technology services		Total <i>HK\$'000</i>
	Software development and solution <i>HK\$'000</i>	software outsourcing <i>HK\$'000</i>	
Revenue	<u>296,775</u>	<u>135,400</u>	<u>432,175</u>
Segment results	<u>(28,172)</u>	<u>1,919</u>	(26,253)
Unallocated income			410
Unallocated corporate expense			(4,192)
Share of results of associates			<u>21,589</u>
(Loss) before taxation			(8,446)
Taxation			<u>(9,279)</u>
(Loss) for the period			<u>(17,725)</u>

3. Other income

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income	13,768	12,861
VAT refund	21,056	19,019
Government subsidies and grants	12,054	47
Rental income	11,682	322
Others	358	1,371
	<u>58,918</u>	<u>33,620</u>

4. LOSS BEFORE TAXATION

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	94,533	63,813
Depreciation	9,693	6,092
	<u>94,533</u>	<u>63,813</u>

5. TAXATION

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Current tax:		
Hong Kong	-	-
PRC Enterprise Income Tax	-	9,278
Deferred taxation	798	-
	798	9,278

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	
	2016 HK\$'000	2015 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)	(5,179)	1,913
(Loss)/Earnings for the purpose of diluted (loss) / earnings per share	(5,179)	1,913
Loss from continuing operations		
Loss for the purpose of basic loss per share (Loss for the period attributable to equity holders of the parent)	(5,179)	(16,698)
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of basic (loss) / earnings per share	901,536	901,536
Effect of dilutive potential ordinary shares –share options	-	-
Weighted average number or ordinary shares for the purpose of diluted (loss)/ earnings per share	901,536	901,536

7. DISCONTINUED OPERATIONS

AT June and September 2015, the company has completed the disposal of communications industry solutions business and financial business. Details of disposal of communications industry solutions business and financial business are set out in the announcement dated 10 April 2015 and 9 July 2015 and the circular date 14 May 2015 and 5 August 2015.

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

	Six months ended 30 June	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
(Loss) profit of business operation for the year	-	(57,153)
Gain on disposal of business	-	75,764
	-	18,611

8. DIVIDEND

The Board of directors does not recommend the payment of a dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

9. TRADE AND BILLS 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:

	30.6.2016	31.12.2015
	HK\$'000	HK\$'000
Trade and bills receivables		
0-30 days	26,449	29,525
31-60 days	13,242	5,874
61-90 days	2,423	6,862
91-120 days	4,408	19,356
121-180 days	694	6,937
Over 180 days	62,526	47,644
	109,742	116,198

	30.6.2016	31.12.2015
	HK\$'000	HK\$'000
Amounts due from fellow subsidiaries		
0-30 days	79,260	18,858
31-60 days	15,244	1,552
61-90 days	4,389	14,702
91-210 days	4,155	101,928
Over 210 days	104,378	6,793
	207,426	143,833

9. TRADE AND BILLS AND OTHER RECEIVABLES (CON' T)

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
Amounts due from ultimate holding company		
0-30 days	1,124	621
31-60 days	-	-
61-90 days	-	27
91-120 days	-	-
Over 120 days	1,365	518
	<u>2,489</u>	<u>1,166</u>

10. TRADE AND BILL AND OTHER 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:

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
Trade and bills payables		
0-30 days	18,486	36,613
31-60 days	5,041	16,609
61-90 days	2,786	3,095
Over 90 days	79,218	77,847
	<u>105,531</u>	<u>134,164</u>

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
Amounts due to fellow subsidiaries		
0-30 days	2,728	5,618
31-60 days	202	-
61-90 days	30	27
Over 90 days	33,370	37,947
	<u>36,330</u>	<u>43,592</u>

	30.6.2016 HK\$'000	31.12.2015 HK\$'000
Amounts due to ultimate holding company		
0-30 days	59	666
31-60 days	57	-
61-90 days	57	-
Over 90 days	607	429
	<u>780</u>	<u>1,095</u>

11. SHARE CAPITAL

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2016	2,000,000	20,000
Issued and fully paid:		
At 1 January 2016	901,536	9,015
At 30 June 2016	901,536	9,015

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

12. 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.2016 HK\$'000	30.June.2015 HK\$'000
Supply Transactions	(i)	6,654	9,754
Selling Agency transactions			
(1) Aggregate transactions amount	(ii)	127,189	127,252
(2) The related commission amount		1,259	494
Purchase Transactions	(iii)	5,402	38,194
Common Services Transactions	(iv)	6,172	6,827
Leasing Services Transactions	(v)	11,682	322

Notes:

- (i) The Group will supply Inspur group goods and service with reference to the market price.
- (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 favorable than the terms available from independent third parties for provision of similar services.
- (v) The Group shall provide office for use (Leasing Services) to Inspur Group. The expense to be charged will be agreed upon between the parties and shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favorable than the terms available to independent third parties for provision of similar services.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

As at June 2015, the Company had disposed communications industry solutions business which was listed as discontinued operation in the last corresponding period. In September of 2015, the company had completed disposal of assets related to finance business which was listed as discontinued operations and adjusted the comparative figures retrospectively. During the reporting period, the loss from continuing operations attributable to the equity holders of the Company amounted to HK\$5,179,000 (2015: loss HK\$16,698,000). Net loss from continuing operations recorded a decrease as compared with the corresponding period of last year. Because the gain from the equity disposal amounted to HK\$75,764,000 was recognized in the corresponding period of last year, results in a significant decrease in the profit from continuing operation and discontinued operation in current reporting period.

(1) Revenue from continuing operations keep on stable growth

The Group recorded a revenue of HK\$521,703,000 (2015: HK\$432,175,000) representing an increase of 20.72% as compared with corresponding period of last year. The revenue of software development and solution for the year was HK\$359,647,000 (2015: HK\$296,775,000), representing an increase of 21.19% as compared with corresponding period of last year; On the other hand, the software outsourcing business was HK\$ 162,056,000(2015: HK\$135,400,000), representing an increase of 19.59% as compared with last corresponding period.

(2) Operations loss from continuing operation decrease

During the reporting period, gross profit of the Group from continuing operation was HK\$152,841,000 (2015: HK\$121,138,000), representing an increase of 26.17% as compared with corresponding period of last year, and gross profit margin was 29.30% (2015: 28.03%). The loss from continuing operations amounted to HK\$4,988,000 (2015: loss HK\$17,725,000). Basic and diluted loss per share from continuing operations were HK0.57 cents (2015: loss 1.85 cents). Basic and diluted loss per share from continuing operations and discontinued operations were HK0.57 cent (2015: profit of HK0.21 cents).

During the reporting period, loss from continuing operations reduced compared with the corresponding period of last year mainly because: (1) Although fierce competition in the market and the overall economic situation are still not so good, the revenue and gross margin of our ERP business keep stable growth; (2) We start to get rental income from investment properties;(3) Although the Company is continuing investing in R&D, overall trend of cost growth began to under control. During the reporting period, the distribution expenses and administrative expenses were HKD226,839,000 (2015:184,794,000) and representing 22.75% increase compared with the corresponding period of last year.

(3) Sufficient working capital

As at 30 June 2016, shareholders' funds of the Group amounted to approximately HK\$1,721,282,000 (31 December 2015: HK\$1,738,760,000). Current assets were approximately HK\$1,356,059,000, including cash and bank balances of HK\$561,776,000, 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\$727,885,000, mainly comprised trade payable, amount due to fellow subsidiaries, other payables and accrued expenses. The Group's current assets were approximately 1.86 times (31 December 2015: 1.84 times) over its current liabilities. The Group had no bank borrowings as at 30 June 2016.

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 2016, the Group had 3,319 employees. Total employee remuneration, including the Directors' fees and contributions to the Mandatory Provident Funds, amounted to approximately HK\$315,102,000 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 2016, bank deposits in the amount approximately HK\$14,368,000 of the Group's assets was pledged (31 December 2015: HK\$14,994,000).

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

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 asked for damages of approximately HK\$9,551,000. The Company vigorously defended this matter. While the outcome of this litigation matter cannot be predicted with certainty, the Group recognized a provision of HK\$5,372,000 in 2015 year (equivalent to approximately RMB4, 500,000) which represents the best estimate and based on the legal advice. Except for the above disclosure, the Group had no material contingent liabilities.

BUSINESS REVIEW

In first half of 2016, to follow the trend of internet +", we fully implement the "data-centric" strategy, foothold field of enterprise information and adhere to concept of the Internet, sophisticated, wisdom. Through the use of cloud computing, big data, networking, mobile Internet and other technologies, through inheritance and innovation, our company continues to focus on data-centric transition to the cloud operation, and becomes a leader of industry of Chinese enterprises" management software and cloud service provider.

The business of IT services of the Group covers various industry sectors, including corporate governance, pharmaceuticals, construction, finance, coal, manufacturing, and grain reserves etc. Our company provides software and related integrated IT total solution services based on IOT, covering application software, IT consulting service, systems integration, operation and maintenance, outsourcing etc,

IT services mainly include the following segments:

(1) Software and related services

To actively reflect to challenges of traditional enterprise integration "Internet +" plan, around the industry characteristics such as intelligent manufacturing, pharmaceuticals, construction, grain reserves and mining industries, Inspur strengthens the R&D of cloud computing, big data research applications and release hybrid cloud solutions to promote the traditional enterprises to be internet -based enterprises. On the other hand, Inspur strengthens the management accounting product development and marketing promotion along with innovation and change of the "Internet +" era. . The company released cloud solution such as the financial cloud, procurement cloud, e-commerce cloud, wisdom warehouse system and human resource service cloud solutions etc.

The Company grasps opportunities of Chinese grain reserve industry informatization. Based on the wisdom warehouse IOT solution system, we provide warehouses information integration to the warehouses in all sizes and authorities in grain reserves industry in all levels. We adhere to our independent innovation, enhance core self-developed technologies, and apply IOT technology companied with grain reserve characteristic together to upgrade intellectualized level of our solutions. Our Wisdom Warehouse system was applied in around 600 warehouses. And our grain sales management software was installed in used in 11 provinces, like Heilongjiang, Jilin, Liaoning, Anhui, Jiangsu, Jiangxi etc, and get a lot of favorable feedbacks and comments. Relying on our deep understanding in IOT technology and grain industry, we will keep our leading position in IT service in grain industry. In the first half of the year, we signed contacts with China Grain Reserve and Jilin for application of our Wisdom Warehouse system. IOT project becomes our important growth in future.

In marketing promotion, the company continues to focus on cloud products, solution and service integrated based on the demand of large enterprises. At the same time, around our advantage sectors, such as SOE reform, program of collecting Value-Added tax in lieu of Business Tax, e-procument, fund management, we carry out a lot of market promotions covering several provinces and cities. The company faces to the key industry clients, digs out commercial opportunities, and effectively improves brand's influence and market competition ability. At same time, around our advantage industries such as the pharmaceuticals, construction industries, SOE and public services industry , our company developed targeted products such as financial share, HCM, financial control , tax management etc and performed effective market promotions to get orders. Through our named client system and head office management, we signed contacts with major d clients such as Grain wisdom warehouse, Huiyuan Juice, China Railway, Tsinghua Holdings etc.

For Research and Development: During the reporting period, we further integrate R&D resource and knowledge sharing. For released financial share products, we will further enlarge its applications. To meet the changes of the law and regulations on taxes, we develop more modules and functions on the products accordingly. Our signed client has accomplished the trial version of e-procument system and we will further improve and upgrade this system. Our funding management cloud products have been commercialized and will soon be released in the market. We accomplished development on HCM Core and have signed contract with client in application. Meanwhile, we upgraded our core module of ERP system, including redesigning our production development map, added new function on GS, internationalize more, prioritize cloud applications, and internet use friendly etc. More R&D on GSP6.1 was taken to achieve the need of business process integration and unifying organizational model.

For delivery: Through set-up central and district delivery center, the company continues to enhance the delivery and operation management and reallocate the resources among the different districts. In order to improve delivery efficiency, we put more effort on staff training, case study and execution guidance and practice etc. Continue to implement the project contract responsibility system and motivate the implementation to ensure the successful delivery of major projects such as Qilu Pharmaceutical, CCCC Fourth Harbor Bureau, China Railway 11th Bureau, and wisdom warehouse.

(2) Software outsourcing business

The Group's software outsourcing business mainly includes providing IT services to fortune 500 companies, including the provision of IT Outsourcing ("ITO") services, such as system application development, embedded system development, quality testing, Business Process Outsourcing ("BPO") services, such as information processing, business localization, operation and maintenance hosting, call center etc, and also data analysis service, Infrastructure maintenance services, cloud services.

In first half of 2016, service outsourcing business in China maintains steady growth. Since more and more alliances are formed among the large service outsourcing enterprises, scale advantage makes intense competitive within the industry. In this market environment, through close cooperation relationship with the company like Microsoft, China Telecom, Zuowang and other strategic clients, more projects gradually expanded. At the same time, we put more efforts to contact the potential domestic market, and expand size in the domestic business. China's large enterprises and local governments have begun to outsource some parts of the innovation and R & D work, not only just in the traditional sense of the company's non-core business outsourcing services. The revenue and gross profit margin of outsourcing business will be improved accordingly. Valued-added and innovation will be the core trend of future business development model.

BUSINESS PLANNING

In the second half of 2016, the company will continue to follow the plan drew up in the early of the year: focus on the core products, implement aggressive market expansion strategy, increase investment in key provinces, expand our advantages in leading industries such as construction and grain reserve etc and improve our market incentive and assessment policy. The company will focus even more on current core products' R&D, upgrades of production's function and invests more on R&D in platform. Through international cooperation, improve our product competitiveness to realize the two hard target of being the "traditional software supplier" and "Cloud Services business innovation supplier".

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2016, 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 2016, none of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or their respective associates (as defined in the 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 new share option scheme on 10 November 2008.

On 10 December 2010, a total of 12,020,000 share options were grant 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.

On 16 July 2015, a total of 40,000,000 share options were grant 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\$1.71 per share.

On 16 May 2016, a total of 30,000,000 share options were grant 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\$1.34 per share.

As at 30 June 2016, the numbers of shares available for issue and remained outstanding under the option scheme are 43,020,000 shares.

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 Mr. Ding Xiangqian. 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 2016, 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 2016

By Order of the Board
Inspur International Limited
Wang Xingshan
Chairman

Hong Kong, 26 August 2016

As at the date of this announcement, the Board comprised Mr. Wang Xingshan and Mr. Jin Xiaozhou, Joe as executive Directors; Mr. Samuel Y. Shen and Mr. Dong Hailong as non-executive Directors; Mr. Wong Lit Chor, Alexis, Ms. Zhang Ruijun and Mr. Ding Xiangqian as independent non-executive Directors.