宝德 PowerLeader

**Powerleader Science & Technology Group Limited***

(a foreign joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code : 8236

# Annual Report 2009

* For identification purposes only

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*The Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the "Directors") of Powerleader Science & Technology Group Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# CONTENTS

# CORPORATE INFORMATION

## REGISTERED OFFICE

Room 43A, 43rd Floor, Block C
Electronics Science & Technology Building
Shennan Road Central
Futian District
Shenzhen
The PRC

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

4th Floor, Research and Development Building,
Powerleader Technology Research and Production Base
Guanlan Hi-Tech Industrial Park,
Bao'an District,
Shenzhen
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 904C, 9/F, Sunbeam Centre,
27 Shing Yip Street,
Kwun Tong
Kowloon
Hong Kong

## WEBSITE ADDRESS

www.powerleader.com.cn

## COMPANY SECRETARY

Mr. Ng Chi Ho, Dennis

## COMPLIANCE OFFICER

Mr. Li Ruijie

## QUALIFIED ACCOUNTANT

Mr. Ng Chi Ho, Dennis

## AUDIT COMMITTEE

Mr. Chan Shiu Yuen Sammy *(Chairman)*
Dr. Guo Wanda *(Member)*
Mr. Jiang Baijun *(Member)*

## AUTHORISED REPRESENTATIVES

Mr. Dong Weiping
Mr. Ng Chi Ho, Dennis

## AUDITOR

SHINEWING (HK) CPA Limited

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKERS

Bank of China
108 Buiji Road
Buiji Sub-district
Shenzhen
The PRC

Industrial Bank Co., Ltd.
1st Floor, Gaofachengchi Building
Yitian Road
Futian District
Shenzhen
The PRC

Shenzhen Development Bank Co., Ltd.
1st and 2nd Floors
Greatwall Building
51, 4 Bai Hua Road
Futian District
Shenzhen
The PRC

## STOCK CODE

8236

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Powerleader Science & Technology Group Limited (hereinafter called "the Company"), I am pleased to present the results of the Company and its subsidiaries (hereinafter called "the Group") for the year ended 31 December 2009.

## FINANCIAL HIGHLIGHTS

For the year ended 31 December 2009, the Group delivered a turnover of approximately RMB802,373,000, a decrease of approximately 1% as compared to that for the year ended 31 December 2008. Audited profit attributable to shareholders was approximately RMB27,550,000, representing a decrease of approximately 45% over the year ended 31 December 2008.

## RESULTS REVIEW

Invigorated by gradual resilience in worldwide economy in 2009, most businesses began to bottom out and pick up. Given that the Group's business operations were hampered by the shrinkage of the Chi Mei LCD screen business, turnover for the current year fell slightly over the previous year. Against this backdrop, as the Group has timely adjusted its business strategy to keep ahead of the prevailing changes, excluding gain on deemed disposal of interests in an associate and gain arising from foreign exchange rate changes in 2008, operating profit in 2009 has increased over that of 2008.

**Server System Solution Business**

Leveraging on IPDC, HPC, partners, government and education conventional markets, the Company gave full play to advantages of two-pronged direct selling and flexible customization strategy. By deepening tight communication ties and close collaboration with our partners, we have built a key-customer support program, in order to provide customized products and customized services in line with market demand and customers' needs. Notable success was attained in industries including digital TV, video surveillance, network security, transportation and military.

**Value-added Platform and Related Components Agency Distribution Business**

As turnover from LCD business declined under the impact of the industry, turnover from value-added platform and related components agency distribution business in 2009 as a whole recorded a year-on-year decline. However, the value-added distribution business of server component solutions product ranges, which were mainly Intel-based server component product lines, reported an impressive growth, with an increase in total sales and gross profit of more than 30% over the same period last year. In 2009, we have made greater intensity of incessant efforts to explore industry SI customers and expand channel partners, thereby reaping fruitful results.

**Leasing of Servers and Network Value-added Business**

This year, the Group has made critical progress in its CDN research and development and product promotion. The CDN technology, which is an self-developed technology, has been completely put into commercial applications with nodes scattering across the whole country. The consolidated business capacities have notably been enhanced.

**An Associate**

An application for initial public offering and listing on the ChiNext of the Shenzhen Stock Exchange made by 深圳市中青寶網網絡科技股份有限公司 ("Powerleader Network"), an associate in which the Group held a 20.40% interest, was approved by the Public Offering Review Committee of the Growth Enterprise Market of the China Securities Regulatory Commission on 25 December 2009. On 5 February 2010, 25,000,000 shares at par value of RMB1.00 each were successfully issued at an offer price of RMB30 per share which were finally listed on the ChiNext of the Shenzhen Stock Exchange on 11 February 2010. The speedy growth in China's online game industry coupled with the successful listing of Powerleader Network will inject new vitality into the Group for further development.

**Other Aspects**

In 2009, as a beginning step to establish a foothold into quasi-financial sector, the Company, as a main promoter, prepared to set up 深圳市潮商小額貸款有限公司 (Mini Credit of Shenzhen Chaoshang Commerce Chamber Co., Ltd.), with a registered capital of RMB155,880,000 of which the Company has invested RMB46,880,000. Mini Credit of Shenzhen Chaoshang Commerce Chamber Co., Ltd. obtained its business license on 4 February 2010, and has commenced its formal operation.

# CHAIRMAN'S STATEMENT

During the year, the Group has been recognized as a "State New and High Technology Enterprise" (國家級高新技術企業), and awarded honours like a "Leading Backbone Private Enterprise in Shenzhen" (深圳市民營領軍骨幹企業)", a "Prestigious Brand of Shenzhen" (深圳市知名品牌) and an "Innovation-oriented Pilot Enterprise in Guangdong Province" (廣東省創新型試點企業)". It has also received a number of subsidies from the government departments.

## FUTURE DEVELOPMENT STRATEGY

In 2010, Powerleader Science & Technology Group will unswervingly uphold its strategic direction by positioning itself from "a leading supplier of server solutions in China" to "a top-notch supplier of cloud computing products and services in China". The Group will rely on its profound R&D technology, extensive R&D in-house experience, strong R&D team, rigorous R&D management system and wide customer reach over the years so as to place emphasis on three major business scopes for cloud computing product and service suppliers: namely, infrastructure services, platform services and software services. We will also tap into cloud computing products and services blessed with prominent market opportunities by evolving from a traditional supplier engaged in the distribution of server system solutions and platforms and accessories.

Given that the Company has initiated the above strategic transformation, and sequentially commenced financial and other related businesses, the Company will make appropriate adjustments to the classification of its revenue and results accordingly.

**Server System Solution Business**

Through a two-pronged strategy with dual emphasis on hardware and software, research and development efforts were stepped up. Our developments cover complete server solutions such as server navigation systems, HPC management systems, virtualization and cloud computing. We strive to put those developments into successful industry-wide applications including IPDC, security, monitoring, education, government, health care, taxation, transportation and energy. With regard to software, we will continue to devote greater efforts to develop industries including Internet enterprises (such as portals, video sites, e-commerce sites, etc.), governments, universities, health care and broadcasting. We will bolster our cooperation with integrators and related product corporations. We will also take advantage of the support from the national policies for domestically-produced equipment, and take part in government tendering and bidding projects and co-operation in systems integration projects.

**Value-added Platform and Related Components Agency Distribution Business**

It is our longstanding vision to further specialize, strengthen and enlarge our value-added distribution business of server component solutions. With Intel-based server components product lines as the core, we will vigorously upgrade and enrich our server component solutions product ranges so as to satisfy the rising one-stop purchase needs from industrial customers and channel partners. We will continue to take great leaps in consolidating and enhancing our core competitive edges, with a view to positioning us as the most professional and the most influential server component solutions supplier.

**Cloud Computing Products and Services**

We will endeavor to gradually promote the popularity of cloud computing through total solutions. We will build standardized infrastructure specifically designed for cloud computing. We will make efforts to provide open architecture and framework which can promote cloud interaction; become a leader in the front of delivery of cloud services; provide support to the largest cloud computing event in China; apply our existing expertise to China's leading private clouds; help customers upgrade from traditional dedicated data centers to next-generation cloud and data centers. We will also use extended clouds as a basis for adoption of green technology.

**Leasing of Servers and Network Value-added Business**

Leveraging on our primary server business, we will continue to expand into swiftly growing Internet value-added business. We will further upgrade our CDN network acceleration technology innovation and foster commercial promotion in order to gear towards a thriving growth in turnover.

**Group Reorganization**

The Group plans to implement a capital increase of 10% for its subsidiary, 深圳市寶德計算機系統有限公司, to the management team in 2010. The original minority shareholders of Ex-channel Group Limited will transfer 5% equity interests to the core management team. This program is designed to effectively motivate the cohesion and sense of belonging amongst the Company's core management team, and herald the entry of the Group's business into a new boom, thereby yielding win-win results for both the core management team and the Company.

# CHAIRMAN'S STATEMENT

## APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express my gratitude to all the shareholders for their enduring support to the Company. Meanwhile, I would like to further extend my heartfelt appreciation to all of the staff for their diligence and dedication to the Group. In 2010, the Group will spare no endeavour to fight for and strive for promising returns to its shareholders.

Yours faithfully,
**Powerleader Science & Technology Group Limited**
**Li Ruijie**
*Chairman*

Shenzhen, the PRC, 30 March 2010

# CORPORATE GOVERNANCE REPORT

During the year, the Company has conducted review on its internal governance measures against the provisions as set out in the Code on Corporate Governance Practices (the "Code"). A number of internal governance measures have been introduced to the management of the Company in order to bring up their awareness of the Code. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2009.

## BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises ten Directors, is responsible for corporate strategy, annual interim and quarterly results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out under "Biographical details of the Directors, Supervisors and Senior Management". All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of shareholders. Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun are the independent non-executive Directors. Mr. Chan Shiu Yuen Sammy has been appointed as an independent non-executive Director for a term of one year commencing on 10 December 2010. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of one year commencing on 6 June 2009 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for another term of one year commencing on 20 May 2009. All of them are subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

## CHAIRMAN AND CHIEF EXECUTIVE

Mr. Li Ruijie is the chairman of the board of Director and an executive Director and Mr. Dong Weiping is the chief executive of the Company and an executive Director.

## TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Wang Lixin was re-appointed on 12 December 2009 for a term of one year. Mr. Sun Wei and Mr. Li Donglei were also re-appointed on 8 May 2009 for another term of one year. All the existing appointments will be continued thereafter subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

The board of Directors held 8 board meetings during the year under review.

# CORPORATE GOVERNANCE REPORT

Details of the attendance of the board of Directors are as follows:

| Directors | | Attendance |
|---|---|---|
| *Executive Directors* | | |
| Mr. Li Ruijie *(Chairman)* | | 8/8 |
| Mr. Dong Weiping *(Chief Executive)* | | 8/8 |
| Ms. Zhang Yunxia | | 8/8 |
| Mr. Ma Zhumao | | 8/8 |
| *Non-executive Directors* | | |
| Mr. Wang Lixin | | 8/8 |
| Mr. Sun Wei | | 8/8 |
| Mr. Li Donglei | | 8/8 |
| *Independent Non-executive Directors* | | |
| Dr. Guo Wanda | | 8/8 |
| Mr. Jiang Baijun | | 8/8 |
| Mr. Yim Hing Wah | (deceased in July 2009) | 5/8 |
| Mr. Chan Shiu Yuen Sammy | (appointed on 10 December 2009) | 1/8 |

Apart from the regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

## REMUNERATION OF DIRECTORS

The remuneration committee was established in December 2005. The chairman of the committee is Mr. Chan Shiu Yuen Sammy, an independent non-executive Director, and other members include Dr. Guo Wanda and Mr. Jiang Baijun, both being independent non-executive Directors.

The roles and functions of the remuneration committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations to the board of the remuneration of non- executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance- based remuneration.

During the period under review, a meeting of the remuneration committee was held on 10 December 2009. Details of the attendance of the remuneration committee meeting is as follows:

| Members | Attendance |
|---|---|
| Dr. Guo Wanda | 1/1 |
| Mr. Jiang Baijun | 1/1 |
| Mr. Chan Shiu Yuen Sammy | 1/1 |

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the non-executive Directors are fair and reasonable.

# CORPORATE GOVERNANCE REPORT

## NOMINATION OF DIRECTORS

The nomination committee was established in December 2005. The chairman of the committee is Mr. Chan Shiu Yuen Sammy, an independent non-executive Director, and other members include Dr. Guo Wanda and Mr. Jiang Baijun, both being independent non-executive Directors.

It is the board of Directors' responsibilities in relation to nomination of Directors (i) to review the structure, size and composition of the Board; (ii) identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' meeting in relation to appointment and re-appointment of Directors of the Company.

During the period under review, a meeting of the nomination committee was held on 10 December 2009. Details of the attendance of the nomination committee meeting is as follows:

| Members | Attendance |
|---|---|
| Dr. Guo Wanda | 1/1 |
| Mr. Jiang Baijun | 1/1 |
| Mr. Chan Shiu Yuen Sammy | 1/1 |

## AUDITOR'S REMUNERATION

During the year under review, the Company has paid to the external auditor of the Company, SHINEWING (HK) CPA Limited, approximately RMB774,000 and RMB39,000 for audit and other services respectively.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Chan Shiu Yuen Sammy.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

| Members | | Attendance |
|---|---|---|
| Dr. Guo Wanda | | 4/4 |
| Mr. Jiang Baijun | | 4/4 |
| Mr. Yim Hing Wah | (deceased in July 2009) | 2/4 |
| Mr. Chan Shiu Yuen | (appointed on 10 December 2009) | 0/4 |

All of the Group's unaudited quarterly and interim results and audited annual results for the year ended 31 December 2009 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other regulations, and that adequate disclosure have been made.

## ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2009.

The directors' responsibility in the preparation of the financial statements and the auditor's responsibility are set out in the Independent Auditor's Report.

## INTERNAL CONTROL

The Company had conducted periodical reviews on its system of internal control to ensure there is an effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the financial year ended 31 December 2009, the Group recorded a turnover of approximately RMB802,373,000 and profit attributable to equity holders of the Company of approximately RMB27,550,000 as compared to turnover and profit attributable to equity holders of approximately RMB810,674,000 and approximately RMB50,015,000 respectively for the year ended 31 December 2008, representing a decrease of approximately 1% and 45% respectively. Earning per share is approximately RMB1.22 cents (2008: RMB2.22 cents) and net assets per share of the Company is approximately RMB0.17 (2008: RMB0.16).

### Turnover

The turnover of the Group for the year ended 31 December 2009 and the comparative figures of 2008 can be classified by business as follows:

| | 2009 | | 2008 | | Change |
|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | % |
| **Turnover by business** | | | | | |
| Server system solutions | 273,768 | 34.1 | 250,750 | 30.9 | 9.2 |
| Value-added platform and related components agency distribution | 527,016 | 65.7 | 557,456 | 68.8 | (5.5) |
| Leasing of servers and network value-added business | 1,589 | 0.2 | 2,468 | 0.3 | (35.6) |
| Total | 802,373 | 100 | 810,674 | 100 | (1.0) |

The Group's sales were mainly derived from server system solutions and value-added platform and related components agency distribution. With reference to the table above, for the year ended 31 December 2009, turnover from server system solutions and value-added platform and related components agency distribution business amounted to approximately RMB273,768,000 and RMB527,016,000 respectively (2008: RMB250,750,000 and RMB557,456,000), accounting for 34.1% and 65.7% of total sales respectively (2008: 30.9% and 68.8%). Sales of server system solutions rose. On the contrary, sales of value-added platform and related components agency distribution business dropped marginally. More business analysis is detailed in the "Business Review" section below.

### Gross Profit

| | Turnover | | Gross profit | | Gross profit margin | |
|---|---|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 | 2009 RMB'000 | 2008 RMB'000 | 2009 % | 2008 % |
| **Turnover by business** | | | | | | |
| Server system solutions | 273,768 | 250,750 | 56,432 | 53,039 | 20.6 | 21.2 |
| Value-added platform and related components agency distribution | 527,016 | 557,456 | 24,479 | 33,836 | 4.6 | 6.1 |
| Leasing of servers and network value-added business | 1,589 | 2,468 | (24) | 750 | (1.5) | 30.4 |
| Total | 802,373 | 810,674 | 80,887 | 87,625 | 10.0 | 10.8 |

The Group's gross profit decreased from approximately RMB87,625,000 for the year ended 31 December 2008 to approximately RMB80,887,000 for the year ended 31 December 2009, representing a decrease of approximately 7.7%.

The Group's overall gross profit margin fell from approximately 10.8% for the year ended 31 December 2008 to 10.0% for the year ended 31 December 2009. Under furious competition within the industry, gross profit of both the server system solutions and the value-added platform and related components agency distribution business showed a diminishing trend.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Other Operating Income**

Other operating income mainly included government subsidies for technology improvement on servers and recovery of bad and doubtful debts, which amounted to approximately RMB7,939,000 and RMB7,558,000 for the year ended 31 December 2009 respectively, as compared to that of approximately RMB3,651,000 and RMB383,000 respectively for the year ended 31 December 2008. In addition, due to the devaluation of USD in 2008, the Group realized a significant exchange gain of approximately RMB13,052,000, whereas the Group did not have such significant exchange gain in 2009.

**Operating Expenses**

The Group's distribution costs, administrative and other expenses for the year ended 31 December 2009 have increased by 6.1% to approximately RMB63,246,000 as compared to that of approximately RMB59,598,000 for the year ended 31 December 2008. This was mainly attributable to the increase in number of employees of the Group and the rise in wages and salaries.

**Financial Resources and Working Capital**

As at 31 December 2009, the Group had shareholders' funds of approximately RMB393,628,000 (2008: RMB361,278,000). Current assets amounted to approximately RMB851,515,000 (2008: RMB547,126,000) with ample cash in hand. It mainly comprised of unrestricted bank balances and cash of approximately RMB204,028,000 (2008: RMB172,693,000), inventories of approximately RMB103,794,000 (2008: RMB88,034,000) and trade and bill receivables of approximately RMB327,440,000 (2008: RMB229,497,000). Non-current liabilities included deferred tax liabilities of approximately RMB4,220,000 (2008: RMB2,425,000), long-term bank and other borrowings of RMB115,873,000 (2008: RMB116,988,000) and minority shareholders' interests of approximately RMB15,701,000 (2008: RMB12,196,000). Current liabilities mainly comprised bank and other borrowings of approximately RMB383,382,000 (2008: RMB121,863,000) and trade and bill payables of approximately RMB190,875,000 (2008: RMB80,871,000).

**Currency Risk**

The Group's purchase was predominantly denominated in USD, which represented approximately 87% of the Group's purchase for the year ended 31 December 2009 (2008: 86%). In 2009, the Group circumvented its foreign exchange risk through non-deliverable forward operations.

**Gearing Ratio**

As at 31 December 2009, the gearing ratio of the Group was approximately 43.1% (2008: 31.5%). It is defined as the Group's interest-bearing debts over the total assets.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Over years of development, PowerLeader Technology Group has emerged as the dominant server solutions supplier in China, and has gradually formed three major business systems:

Server System Solution Business: Currently, the Group is ranked at the forefront of domestically-produced server solutions suppliers. Its products cover general-purpose servers, industrial control servers, high-performance servers and storage systems. The Company has complete servers and related solutions including servers navigation systems, HPC management systems, virtualization and cloud computing. Solutions for a variety of industries including IPDC, security, monitoring, education, government, health care, taxation, transportation and energy have been developed by the Company, and have been successfully applied to many industry-leading clients. At the same time, the Group has independent R&D capabilities in the aspects of chips, server motherboards, functional boards, server architecture parts, cases and cabinets. In addition, server software (such as systems like business data excavation software, Internet video services key technology, firewall software, load-balancing software), as a kind of solutions value-added business, will become new business development modules of the Company, so as to create broader spaces for the development of overall server solutions.

Value-added Platform and Related Components Agency Distribution Business: agency distribution of server CPU, motherboards, cases, memory, Fujitsu storage, LCD monitors and related software.

Leasing of Servers and Network Value-added Business: leasing of servers, development and operation of CDN network value-added services, IDC and cloud computing centre.

**Server System Solution Business**

***Hardware aspects***

In 2009, despite the fact that server market demand was increasing steadily, competition amongst industry peers has become increasingly ferocious. While international manufacturers were placing more weight on the domestic market, domestic manufacturers were also using their own resources to compete for their market shares in the server sector. Armed with IPDC, HPC, partners, government and education conventional markets, the Company gave full play to advantages of two-pronged direct selling and flexible customization. We have built up tight communication ties and close cooperation relationship with our partners, and develop a key-customer support program. We offer customized products and customized services according to market demand and customers' needs. Significant progress was made in industries including digital TV, video surveillance, network security, transportation and military.

In 2009, the Company conducted more thorough study into IPDC customers' demand to introduce differentiated multi-node servers, low-power high-volume servers and customized feature servers, thereby securing sizable orders from important domestic IPDC clients. In the HPC industry, we integrated the upstream application software resources and rolled out overall solutions that meet specific application requirements of HPC. Widespread recognition was received from a host of colleges, universities and national laboratory users. To actively capture opportunities arising from the state's supportive policy for self-innovative domestic products, we participated in the government's education tendering and bidding projects. An important breakthrough has been made in the spectrums of health, national tax, cultural sharing and social security sector. Meanwhile, channel programs were introduced to reinforce our resources expansion into second and third tier markets. We set up solutions centers for seven industry sectors including IPDC, HPC, video surveillance, electricity, health care, education and government so as to speed up the promotion of PowerLeader products in the aforesaid industries in order to seek for more market opportunities. Through intensive market penetration, together with expansion of new industry users and introduction of brand new products, our market share was enhanced.

In early 2009, with the roll out of new products under Intel Xeon 5500 series, server products under Powerleader series were also upgraded, thus embracing us with new market opportunities. The most important marketing task of Powerleader in 2009 was to tap into new and existing markets with those new products under Xeon 5500-based servers.

Upon a first-mover grand release of new products under Xeon 5500 series on 2 April 2009, Powerleader has organized large-scale online and offline media promotional activities to highlight distinctive strengths of those new products, and is well positioned to uplift its leading position and product advantages in the server market.

# MANAGEMENT DISCUSSION AND ANALYSIS

In industries such as government, education, IPDC, HPC as well as regional markets throughout the nation, Powerleader has organized and launched special technology exchange activities for new products in order to introduce technological advantages of new products under Powerleader Xeon 5500 series to a number of important partners, thereby effectively promoting Powerleader's influence amongst customers in the industry and regional markets, and hence, enhancing the customers' confidence in the procurement and product replacement.

Throughout 2009, with a new product-focused marketing in place, 寶德服務器 has greatly fostered the development of its overall marketing sales, and has laid a solid foundation for further market development of 寶德服務器 in 2010.

***Software aspects***

In 2009, 宝德軟件 ("Powerleader Software") demonstrated astounding development, and completed R&D for six major projects (load balancing, firewalls, VOIP, CDN, navigation software, data excavation). Through concerted efforts of the entire research and development team, version 2 of the server navigation system was successfully developed. A product channel conference was successfully held in the Shenzhen headquarters, at which various well-known integrated system providers in the industry and network security service providers were invited to conduct in-depth exchange and communication of their mode of cooperation and to establish channel mechanisms such as general agents, core agents and cooperative partners. Three core server load balancing agents were signed, and fifteen letters of intent were signed with integrated providers. As a server solution supplier in China, we have reinforced collaborations and exchanges with applied server business department, and provided training on related products of Powerleader Software to the relevant members of the department. Through such platform, demand for server load balancing and firewall products was secured from a number of customers. The post-graduate project of Changchun Education Buraeu has been successfully registered for online load balancing. Meanwhile, we have made greater move towards business expansion in two major spectrums, namely IDC and the CDN, and have successfully obtained a CDN server load balancing project. The load balancing products of Powerleader can withstand a peak test of nearly 1G flow and 1 million concurrent connections.

In light of burgeoning development of the Internet, Internet companies and governments are attaching more and more importance to network security and stability. Damage caused to corporations and governments by business interruption arising from a single point of server failure has become a pressing issue. All these factors have boosted robust market demand for load balancing products, and brought highly sophisticated requirements for load balancing products. Given this scenario, foreign giants (such as F5, REDWARE, ARRAY, etc.) have craved out their own niche in this arena, while domestic manufacturers have lower market share. As such, PowerLeader's load balancing products are confronted with challenges and opportunities. After more than a year of R&D, V2.0 of Powerleader's load balancing products has been successfully released. We have successfully launched online Powerleaders' load balancing products for users such as post-graduate examination registration system of Changchun Education Bureau and CDN server load balancing system of Shantou Telecom, thus providing Powerleader Software with richer commercial experience in the load balancing segment.

***R&D investment***

In 2009, with the release of a new generation of INTEL infrastructure products, Powerleader enhanced its R&D efforts and investment, and successfully developed a diverse range of the latest Intel architecture-based server products. While more attention is drawn to computing performance of products, a breakthrough is made in product stability and green energy-saving effects in order to promptly keep abreast of demand for products from large customers in industries like IPDC. In addition, we have researched and developed a variety of channel products to achieve reduction in product cost and to meet demand for server products from price-sensitive customers. To cope with customized demand from customers such as ISV, we have perfected R&D strengths and design processes in order to enable us to quickly meet and timely fulfill customers' needs. To suit needs from specific industries and customers, we have developed a variety of industrial computer products to achieve effective marketing and solid customer relationships. To cater for demand for technical support from large customers, we have established a large-customer technical support team composed of distinguished talent, so as to solve technical problems of our VIP clients on a face-to-face basis.

On the other hand, in relation to R&D capabilities, we have continuously improved development processes/norms and methods to achieve the standardization of R&D and to foster smooth implementation of all R&D projects in an orderly fashion. We have increased the magnitude of R&D incentives and implemented effective incentive programmes so as to promote technological innovation. In 2009, we obtained 12 national patents. With enhanced product values and profit margins, combined with continued reduction in product cost, there was a substantial surge in profit from product sales in 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

***Honours aspects:***

| | |
|---|---|
| January 2009: | Powerleader was named "2008 Statistically Advanced Unit in Annual Torch Program of Baoan New and High Technology Park" ("寶安高新園區2008年度火炬計劃統計先進單位") |
| January 2009: | Powerleader won "2008 Excellent Service Provider in China's Game Industry " ("2008年度中國遊戲產業優秀服務商") |
| January 2009: | Powerleader's high-density energy-efficient servers were awarded "Certificate for Self-innovative Products in Shenzhen City" ("深圳市自主創新產品認定證書") from Shenzhen City |
| January 2009: | Powerleader brand was awarded "Prestigious Brand of Shenzhen" ("深圳市知名品牌") |
| February 2009: | Powerleader's PR1660T won "2008 Channel Latest Products" ("2008年度渠道最新產品") |
| February 2009: | Powerleader's products, such as PR2510D/PR2710DT, obtained "Certificate for Self-innovative Products in Shenzhen City" ("深圳市自主創新產品認定證書") |
| March 2009: | Powerleader won "State New and High Technology Enterprise" Certificate ("國家級高新技術企業" 認證) |
| June 2009: | Powerleader won "2009 Important Supplier Award for China's Green Purchasing" ("2009中國綠色採購重要供應商大獎") |
| June 2009: | Chairman Li Ruijie received the first "Outstanding talent in Futian District" Award ("福田區傑出人才"獎) |
| June 2009: | Chairman Li Ruijie was elected as Vice President of Shenzhen Business Association and Shenzhen Entrepreneur Association (深圳市企業聯合會，深圳市企業家協會副會長) |
| June 2009: | Powerleader Group became the unit of Vice President of Shenzhen Business Association and, Shenzhen Entrepreneur Association (深圳市企業聯合會、深圳市企業家協會副會長單位) |
| July 2009: | Powerleader won a number of patents: "server cabinet", "server case", "power sequence control circuit of chip-voltage" etc. (《服務器機櫃》《服務器機箱》《芯片電壓的上電順序控制電路》) |
| September 2009: | Chairman Li Ruijie was honoured as — "Executive Director" of the sixth Shenzhen General Chamber of Commerce (ACFIC) (深圳市總商會（工商聯）第六屆理事會"常務理事") |
| September 2009: | Powerleader's technical department obtained "a modular server patent" Certificate (一種模塊化服務器專利》證書) |
| December 2009: | Powerleader's PR2760T received ZOL 2009 Outstanding Product Award (ZOL 2009年度優秀產品獎) |
| December 2009: | Powerleader was awarded server online "annual growing business in China's servers" ("中國服務器年度成長企業") |
| December 2009: | Powerleader was awarded "Good Faith SME Title" ("誠信中小企業稱號") on the fourth SME Credit List |

**Value-added Platform and Related Components Agency Distribution Business**

In 2009, there was a decline in overall turnover from value-added platform and related components agency distribution business as compared with the same period last year. However, the value-added distribution business of server component solutions product ranges, which were mainly Intel-based server component product lines, continued to grow dynamically and drastically, with an increase in total sales and gross profit of more than 30% over the same period last year. In 2009, by continuously exploring SI clients and strengthening channel partners, we have attained fruitful results. Moreover, encouraging performance was attained in the value-added distribution and services business of enterprise-class system solutions, which were mainly Fujitsu high-end servers and storage product lines, with an increase in yearly operating income of more than 50% over the previous year.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Leasing of Servers and Network Value-added Services**

In 2009, amongst server sales, CDN business and finance leasing business, CDN business recorded the highest growth of 30%. However, as a result of the consolidation of the national trust market by the Ministry of Information Industry, there was a decline in IDC operations. 2009 represented a relatively vital year for the leasing of servers and network value-added services as it marked an era in which CDN technology rolled out by this segment with its own independent R&D capabilities was put into formal utilisation so that its business development was kept away from reliance upon other parties' technology.

In April 2009, we began to conduct an online testing for CDN technology which was rolled out with our independent R&D efforts. After 3 months of a variety of rigorous tests, such technology was officially put into operation in August. Then, after 4 months of perfection, CDN technology was built into a technology that is quite unrivalled in its industry. Through a diversity of marketing campaigns, business development and technological evolvement, it is believed that this business segment of the Group will become a more influential player within CDN industry in 2010. Therefore, the business development is blessed with good opportunities amidst intense market competition.

Server leasing sales and finance leasing industry were in general relatively stable in 2009. However, in light of reduction in hardware prices, the business may experience a slowdown. Under the fiercely competitive market environment, we will endeavour to march towards a growth in 2010.

IDC business has dropped somewhat. But, thanks to the consolidation by the Ministry of Information Industry, the market has become increasingly standardized. Given a high-speed growth in the Internet and servers, in particular, by capitalizing on 宝德計算機 which was mainly engaged in production and sales of servers, this business segment is set to enjoy a large room for growth in IDC business. The growth in IDC business will flourish the development of CDN and the leasing business, and will create a huge market to promote the development of this business segment as a whole, thus laying a firm foundation for further development in 2010.

**Banking Facilities and Capital management**

In 2009, in order to further enhance operational capability and improve efficiency of capital utilization, the Company continued to carry out business restructuring. To better coordinate and support our business development, we have accordingly adjusted capital management, and actively consolidated resource advantages in various businesses. We cultivated a good mutual trust relationship with major banks, thus furnishing a favorable financing environment for the Company's long-term development.

In order to facilitate the construction and development of the Company's project relating to Tianjin Airport Northern Sales Headquarters, the Company has applied for development loans for fixed assets in the amount of RMB55 million from the Agricultural Bank of China, Tianjin Branch. All of the works were carried out smoothly. The loans were drawn down in November 2009.

While expanding and maintaining external financing channels, we have further controlled capital utilization within the internal business modules by upholding strict cost accounting and steering up the consciousness of financial costs.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Government Support**

In 2009, the Group responded positively to campaigns organized by government departments at various levels and by various community groups. From a pragmatic point of view, we made full use of platforms provided by various government units and community groups to secure more social honours for the Group. The Group raised its awareness extensively, promoted its brand effect widely and enhanced its product competitive edges in the market greatly. As at the end of December 2009, the Group has received numerous highly acclaimed awards from the community. Details are shown in the following table:

**Honours and qualifications received by the Company in 2009**

| Name | Awarding institutions |
|---|---|
| State New and High Technology Enterprise (國家級高新技術企業) | Shenzhen Science, Industry, Trade and Information Technology Commission (深圳市科工貿信委等) |
| Innovation-oriented Pilot enterprise in Guangdong Province (廣東省創新型試點企業) | Guangdong Provincial Economic and Trade Commission (廣東省經貿委) |
| Critically Cultivating Equipment Manufacturing Enterprise in Guangdong Province (廣東省裝備製造業重點培育企業) | Guangdong Provincial Economic and Trade Commission (廣東省經貿委) |
| New and High Technology Products in Guangdong Province (廣東省高新技術產品) | Guangdong Provincial Science and Technology Department (廣東省科技廳) |
| Practical Energy-saving and Emission-reduction Technologies and Products in Guangdong Province (廣東省節能減排實用技術及產品) | Guangdong Provincial Science and Technology Department (廣東省科技廳) |
| Critical Self-innovative Products in Shenzhen City (深圳市重點自主創新產品) | Shenzhen Science, Industry, Trade and Information Technology Commission (深圳市科工貿信委等) |
| Self-innovative Products in Shenzhen (深圳市自主創新產品) | Shenzhen Science, Industry, Trade and Information Technology Commission (深圳市科工貿信委等) |
| Self-innovative Products in Futian District (福田區自主創新產品) | Futian District Science and Technology Bureau, Shenzhen City (深圳市福田區科技局) |

**Government Subsidies**

During 2009, the Group obtained interest-bearing loans, subsidies for technologies and other subsidies from government organizations at various levels, which included Guangdong Provincial Science and Technology Department (廣東省科技廳), Shenzhen Science, Industry, Trade and Information Technology Commission (深圳市科工貿信委), Baoan District People's Government (寶安區人民政府), Futian District Trade and Industry Bureau (福田區貿工局) and Futian District Science and Technology Bureau (福田區科技局), etc. The total amount was more than RMB7 million.

In 2009, the Group received an industrial research prize in Guangdong Provincial Science and Technology Program organized by the Provincial Science and Technology Department. The Group was recognized as a "Privately-owned Leading Backbone Enterprise" (民營領軍骨幹企業) in Shenzhen City by the Shenzhen SME Service Centre (深圳市中小企業服務中心). It also obtained key funding for science and technology from the Futian District Science and Technology Bureau (福田區科技局). It was identified as a "Chief Enterprise" (總部企業) in Futian District, Shenzhen City by the Futian District Trade and Industry Bureau (福田區貿工局), etc.

In 2009, the Group received substantial support and assistance from government departments at various levels. It also developed friendly relations with different social communities and obtained their support and assistance.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Tianjin Powerleader Sciene and Technology Square Northern Sales Centre**

PowerLeader Sciene and Technology Square Northern Sales Centre is located in West 2 Road, Business Centre, Tianjin Airport Logistics Processing Area. The project covers an area of seven acres, with a GFA of 23,000 square meters. The building is a commercial and business office. The construction of the project commenced from January 2009, and the main construction of the project proceeded to a smooth cap in accordance with scheduled progress at the end of September 2009. During the construction process, members of the entire project team strictly conducted construction management in accordance with standards in order to achieve safe and civilised construction, so that the quality and duration of construction were ensured. The main structural work was awarded "Hai He Cup" ("海河杯") as a high-quality project in Tianjin, and was honoured as a civilised hallmark in Tianjin.

At present, installation of complete sets of equipment for the project has begun. Glass curtain wall engineering, elevator engineering and fire prevention works are under construction. Elevator engineering is also ready to enter the project site.

In order to ensure full completion of project construction by June 2010, we have started design work for the renovation program. At the same time, commercial planning is progressing intensively. With respect to commercial planning, we have done a lot of market researches so as to equip ourselves with a better understanding of automotive after-market in Tianjin in order to build our confidence in automotive electronics market. We have also drawn up the overall operating plan and sub-objectives for 2010.

**An Associate**

深圳市中青寶網網絡科技股份有限公司 (中青寶網), an associate in which the Group held a 20.40% interest, is mainly engaged in online game development and operations. During the reporting period, benefiting from continued improvement in product development and operational capabilities, 中青寶網 posted a rapid growth in its business as it realized a year-round operating income of RMB77.4 million in 2009, an increase of 48% over the same period last year. It has contributed RMB7.77 million to the profit of the Group.

The application for initial public offering and listing on the ChiNext of the Shenzhen Stock Exchange made by 中青寶網 was reviewed and approved by the Public Offering Review Committee of the Growth Enterprise Market of China Securities Regulatory Commission on 25 December 2009. A formal license approval was issued by China Securities Regulatory Commission on 20 January 2010. On 5 February 2010, 25,000,000 shares at par value of RMB1.00 each were successfully issued at an offer price of RMB30 per share, which were finally listed on the ChiNext of the Shenzhen Stock Exchange on 11 February 2010.

In view of the rapid growth in China's online game industry and the successful listing of 中青寶網, management expects that the future development prospects for 中青寶網 will remain optimistic, and the Group will also share its earning growth.

**Human Resources**

*Recruitment*

In 2009, through development of new recruitment channels, integration of external recruitment network resources and optimization of internal recruitment processes, etc., we promptly and effectively meet personnel deployment needs of the Group's business development. 490 new positions were open for recruitment throughout the year. The actual number of employees joining the Group amounted to 431. Up to the end of the reporting period, a total of 486 employees held postgraduate degrees. This is in line with the Company's recruitment eligibility requirements in respect of education background and professional qualifications

*Training*

To raise learning skills and knowledge levels and to polish career planning capacities of its staff, the Group stepped up its training efforts in staff re-education. Throughout the year, we organized and implemented a total of 50 internal training courses which can be divided into expertise category, product category and management category. Furthermore, a total of 3 sessions of external expansion training courses were held, and 12 sessions of training courses from external training institutes were conducted; We have newly developed 20 various types of training course materials, and formed an internal training team, thereby mapping out a training system with a team of internal trainers as a backbone, and external training, observation and staff exchange program as a supplementary device. The new staff train-up rate was 100%.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Corporate Culture**

Powerleader has always committed itself to creating a safe, healthy and harmonious working environment for its staff. Through revision and reconstruction of the Group's various kinds of personnel administrative systems and forms, organization of staff birthday parties, launch of cultural exchange activities with external companies, as well as establishment of an internal newsletter — "Powerleader Windows" (寶德視窗), the Group's has effectively combined both external and internal software and hardware resources within the enterprise. Internally, excellence in cultural spirit is a cornerstone of the Group's philosophy. Externally, we present us with a corporate image that is renowned and respected for unwavering commitment and social contribution.

## PROSPECT

In 2010, Powerleader Science & Technology Group will unswervingly uphold its strategic direction by positioning itself from "a leading supplier of server solutions in China" to "a top-notch supplier of cloud computing products and services in China". The Group will rely on its profound R&D technology, extensive R&D in-house experience, strong R&D team, rigorous R&D management system and wide customer reach over the years so as to place emphasis on three major business scopes for cloud computing product and service suppliers: namely, infrastructure services, platform services and software services. We will also tap into cloud computing products and services blessed with prominent market opportunities by evolving from a traditional supplier engaged in the distribution of server system solutions and platforms and accessories. In addition, we have a strong foundation, a splendid team and more closely working partners. With this strategic positioning in place, each of us will be determined to perform in each area of responsibility and capacity. With regard to three major business systems surrounding server system solutions: Firstly, the Group will develop complete server solutions spanning across servers navigation systems, HPC management systems, virtualization and cloud computing, and will strive to successfully put those solutions into industry-wide applications including IPDC, security, monitoring, education, government, health care, taxation, transportation and energy. Secondly, we will continue to expand the value-added server platform and related components agency distribution business. Thirdly, we will establish a cloud computing platform to significantly vitalize the Internet value-added services. By focusing on these three major business systems, the Group will increase its R&D efforts and deepen its market penetration, so as to ensure that the operating income and profit will grow more energetically in 2010.

**Server System Solution Business**

In 2010, we will continue to work closely with Intel to accelerate product development and innovation and to introduce solutions meeting requirements of market segments. We will offer more customized products to customers on a more in-depth basis; By using advantages of flexible customization and deepening industrial markets, we will continue to achieve better market share in software solutions providers, IPDC and HPC; At the same time, driven by industrial expansion and regional interaction, it is believed that we will also have a good performance in government and education markets. Therefore, we are positively optimistic about the server business in 2010.

In connection with software, in 2010, we will continue to increase development momentum in industries like Internet enterprises (such as portals, video sites, e-commerce sites, etc.), governments, universities, health care and broadcasting. We will strengthen our cooperation with integrators and related product corporations. We will capitalize on the nation's supportive policies for domestic equipment. We will also take part in a number of government tendering and bidding projects, and participate in cooperation in system integration projects. Meanwhile, we will reinforce our product promotional efforts via the Internet. At the same time, as for three other projects of Powerleader Software (寶德軟件公司): namely, speed travel accelerators, server navigation software, Internet projects, speed travel accelerators, the current online users have already exceeded 2,000 within a short period of time of less than 2 months. Currently, the development of version 3 is underway; Server navigation software has been made available for server users and positive feedback was received. Internet project team is mainly responsible for developing and operating Jiake Life (甲客生活) (vehicle advertising) platform. The current registered users of car owners have already exceeded 1,000, including users such as Shenzhen Wall Street (深圳華爾街), 中青寶網 and Wahaha (娃哈哈). Those users are advertising through this platform. In 2010, the business of Powerleader Software (寶德軟件公司) will brace a bigger growth.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Value-added Server Platform and Related Components Agency Distribution Business**

It is our longstanding vision to further specialize, strengthen and enlarge our value-added distribution business of server component solutions. With Intel-based server components product lines as the core, we will vigorously improve and enrich our server component solutions product ranges to satisfy the rising one-stop purchase needs from industrial customers and channel partners; We will continue to take great leaps in consolidating and enhancing our core competitive edges, with a view to positioning us as the most professional and the most influential server component solutions supplier. Based on Fujitsu's high-end server and storage product lines as the core, we will further expand value-added distribution and services business of enterprise-class system solutions. We will enhance integrated design, consulting and technical implementation capacities of industry application solutions, in order to provide customers with better services; We will also continue to increase our efforts in broadening major industry clients and market expansion, and strive to achieve greater breakthroughs in government public sector and education sector.

**Cloud Computing Products and Services**

We will plan and implement cloud computing strategy of Powerleader Science & Technology. We will build standardized infrastructure specifically designed for cloud computing. We will make efforts to provide open architecture and framework which can promote cloud interaction; become a leader in the front of delivery of cloud services; provide support to the largest cloud computing event in China; apply our existing expertise to China's leading private clouds; help customers upgrade from traditional dedicated data centers to next-generation cloud and data centers. We will also use extended clouds as a basis for adoption of green technology.

**Leasing of Servers and Internet Value-added Business**

Given a high-speed growth in the Internet and servers, in particular, by capitalizing on 寶德計算機 which was mainly engaged in production and sales of servers, this business sector is set to enjoy a large room for growth in IDC business. The growth in IDC business will flourish the development of CDN and leasing business, and will create a huge market to promote the development of the Internet as a whole, thus laying a good foundation for further development in 2010.

**潮商小額貸款有限公司 (Mini Credit of Shenzhen Chaoshang Commence Chamber Co., Ltd.)**

The Company, as a main promoter, has invested RMB46,880,000 to set up 深圳市潮商小額貸款有限公司, with a registered capital of RMB155,880,000. A business license was obtained on 4 February 2010, and formal business operation has commenced. This company has recruited a general manager, who was a professional manager with many years of experience in the management of bank credit. It will carry out legitimate business operations within the provisions of the "Interim Measures for Pilot Operation of Small Loan Companies in Shenzhen" (《深圳市小額貸款公司試點管理暫行辦法》). It is expected that such company will bring good investment returns for the Company in 2010.

**Banking Facilities and Capital Management**

In 2010, in relation to capital management, we will continue to integrate banking advantageous resources to provide financial support for the Company's business and project undertaking. We will further strengthen the operational modules of financial cost accounting in order to improve capital efficiency and to reduce financial cost. We will logically select financial products and adjust financing structure so as to meet our long-term development needs.

**Human Resources**

In 2010, we will continue to develop a human resources management system for the Powerleader Group, in order to perfect our management efficiency.

# MANAGEMENT DISCUSSION AND ANALYSIS

***Planning Principles:***

| | |
|---|---|
| Principle of stable cycle: | In response to the Company's mission to continuously improve its operational efficiency, human resources management team will base its prerequisite and basis for management on the Company's stable development. |
| Principle of sustainable growth: | In line with expanding scale of the Company, based on vivid and dynamic development of the Company's core team and sustainable growth of results performance, human resources team will be committed to talent selection, breeding, retention and succession planning. |

***Strategic Planning:***

| | |
|---|---|
| Objective: | This is aimed at searching for the right kind of talent in the right place, and selecting competent candidates endowed with ability and talent together with morality and conduct to assume professional tasks; while moral values will be put in the first place. |
| Methods: | This is materialized by expanding recruitment channels, integrating talent selection approaches and improving the objectivity and reasonableness of assessment system of probation period. |

***Organization Planning:***

This is to develop an organizational structure that combines flat and matrix management and to make continuous improvement.

***System Planning:***

With corporate culture as the ultimate driving force, by combining industry characteristics, various management rules, methods and detailed regulations for all HR and AD, including "employee handbook", will be gradually established or improved according to quality system. Specific contents of SOP and performance appraisal will be formulated.

***Staff Planning:***

| | |
|---|---|
| Recruitment Aspect: | With established organizational structure in the circumstances, quantification of human resources will be carried out to make sure that employees are in suitable and stable positions. New posts will only be recruited on a unified basis after a sound basis is put forward. |
| Training Aspect: | We will cultivate spiritual leaders for our corporate culture by combining internal training and external training and making good use of instructors' role; We will enhance business communication, and improve training course materials. |
| Appointment Aspect: | We will establish talent promotion evaluation mechanism and tracking examination mechanisms, improve mentoring system, set up reward and punishment standards; We will promote and develop excellent talent while eliminating incompetent ones. |
| Labor Relation: | We will gradually improve the implementation of discipline compliance and law obedience, and build a harmonious relation with our employees by blending our corporate values with employees' moral values based on the unique corporate culture of Powerleader. |

***Cost Control:***

We will further improve examination standards and implementation methods for labor costs and human resources management costs of the enterprise, including budgeting, accounting, settlement and control of human resources costs.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following sets out the profile of the Directors, supervisors and senior management of the Company:

## DIRECTORS

### Executive Directors

**Mr. Li Ruijie**, aged 43, is the founder, chairman, and an executive Director of the Company. Mr. Li graduated from Nankai University in the PRC with double bachelor degrees in economics and electronics science. Mr. Li has over 10 years of experience in the PRC IT industry. Mr. Li has worked for Shenzhen Shanbao Electronics Co., Ltd. as engineer and then for Shenzhen Wan Tong Software Engineering Limited as sales manager during the period from 1989 to 1991. In 1991, he set up Shenzhen Xin Le He Electronics Limited to carry on IT-related business until July 1997. In recognition of Mr. Li's contribution to the PRC IT industry, he was appointed to be the General Secretary of Shenzhen Information Industry Association in December 2000. Mr. Li established the Company in August 1997. He is responsible for the strategic planning and the overall development of the Company.

**Mr. Dong Weiping**, aged 50, is an executive Director and general manager of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor degree in computer system engineering. Since 1982, Mr. Dong has worked for a number of companies in the IT industry. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong is responsible for sales and marketing and the overall operation of the Company.

**Ms. Zhang Yunxia**, aged 44, is the deputy general manager of the Company. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University in 1988 and then obtained a master degree in tourism business management from the same university. Ms. Zhang has extensive experience in computer engineering industry. Prior to joining the Company in August 1997, she has worked for Shenzhen Wan Tong Software Engineering Co., Ltd., Shenzhen Experiment School and Shenzhen Xin Le He Computer Co. Ltd. between 1990 and 1997 and is responsible for administration and R&D of the Company.

**Mr. Ma Zhumao**, aged 45, graduated with a master degree in Computer Architecture from Tianjin University (天津大學) in 1988 and then obtained a master degree in Business Administration of Peking University. Mr. Ma was previously an executive director of the Company from September 1999 to March 2002, and then joined TCL Computer Co., Ltd. He has worked for a number of IT companies and has extensive experience in IT industry. Prior to joining the Company in October 2005, he has worked for Clustars Supercomputing Co., Ltd as President.

### Non-executive Directors

**Mr. Wang Lixin**, aged 41, is a non-executive Director of the Company. Mr. Wang graduated from Nankai University with a bachelor degree in law in 1991 and is a qualified lawyer. Prior to joining the Company in January 2001, he has been a legal consultant of Shenzhen International Economic Law Firm from 1994 to 1995 and a partner of Shu & Jin Solicitor, PRC Law Firm from 1995 to 2002. He is currently a partner of King & Wood, PRC Law Firm.

**Mr. Sun Wei**, aged 44, graduated from the department of automation control of Harbin Shipbuilding Engineering Institute with a bachelor degree and a master degree in engineering in July 1987 and September 1992 respectively and worked as a lecturer after graduation. In January 1997, he founded 哈爾濱世紀龍翔科技開發有限公司 and held the position of chairman and general manager. Then, he established 哈爾濱工程大學龍翔運通科技開發有限公司, which was principally engaged in development and sale of software, jointly with Harbin Engineering University and held the position of chairman and general manager. In September 2000, he attended a part-time doctoral degree programme at the department of automation control of Harbin Engineering University, during which he published 5 articles in national top-class publications, and was awarded two Third Class Awards in Provincial (Municipal) Scientific & Technological Achievement. In September 2005, he obtained the master degree of business administration (EMBA) from China Europe International Business School in Beijing. In June 2006, he was awarded a doctoral degree in engineering by Harbin Engineering University.

**Mr. Li Donglei**, aged 41, graduated from the department of computer science of Shandong University with a bachelor's degree in science in 1989, majoring in scientific and technological intelligence. From 1989 to 1993, he worked with the information centre of the Second Light Industrial Bureau of Shandong Province as an engineer, and was in charge of various projects, including system information statistics, information analysis and industrial development planning. In 1993 he founded 慧聰集團濟南公司, a key marketing partner of some IT companies in Shandong, including Intel, Lenovo and Langchao, and held the position of general manager, being in charge of strategic planning, business development and general management in Shandong. Since 2001, he has acted as the general manager of 北京聯合智業廣告有限公司 and 北京鑫聯合智業顧問有限公司 ("IBCG"), and was in charge of strategic planning, business development and general management. IBCG is a marketing partner of some international companies and brands in China, including Philips CE, Panasonic and Ariston.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Independent non-executive Directors**

**Mr. Jiang Bajiun**, aged 48, graduated from the China Central Radio and TV University, majoring in Chinese Literature. From 1980 to 1994, he was a secondary school teacher in Xian, while from 1995 to 1999, Mr. Jiang was engaged as a special commentator on market development, and hosted the Directors' forum of China Computerworld. Since 1994, Mr. Jiang established his consultation career with numerous popular international computer corporations. From 1994 to 1996, he was the China market strategic consultant of AST, and the market strategic consultant of Create Group. Mr. Jiang was also the market strategic consultant of the office automation department of Digital China (Toshiba China business) and the market strategic consultant and strategic development consultant of HP China from 1996 to 1999. In 1999, he served in Compaq as the market strategic consultant of the product market in China. From 2000 to 2002, Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), while from 2001 to 2003, he was named the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the product business of Legend Computer. Mr. Jiang was also the chief consultant in strategic development of Shenzhen Qinzhong Electronics from 2002 to 2004, and the market strategic consultant of Huayu Bancoo from 2003 to 2004. Since 2003, Mr. Jiang has been the market strategic consultant of the PC business of IBM China (notebook computer business), as well as the market strategic consultant of the Panasonic business and FUJITSU business of the China Daheng Group since 2004. Mr. Jiang was appointed to be an independent non-executive director on 20 May 2005.

**Dr. Guo Wanda**, aged 44, obtained his Doctor of Philosophy in Economics from Nan Kai University in Tianjin in 1991. He is the vice president of China Development Institute of Shenzhen. He is also the chairman of Shenzhen Association of Management Consultants and a committee member of the advisory committee of Shenzhen municipal government. He has been an independent non-executive director of Shenzhen FIYTA Holdings Limited, a company whose shares are listed on the Shenzhen Stock Exchange since 2005. He was specialized in China macroeconomic & industrial policy studies and enterprises strategy analysis and was appointed to be an independent non-executive director on 6 June 2008.

**Mr. CHAN Shiu Yuen Sammy**, aged 46, has more than 16 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a Bachelor of Commerce degree from Dalhousie University, Canada and is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Chan had worked for a big-four accountant firm for over 8 years, and after that he acted as the qualified accountant, company secretary and authorized representative of the Company during the period from May 2005 to May 2007. Mr. CHAN was the deputy general manager of China Fibretech Limited, the securities of which are listed on the main board of the Singapore Stock Exchange Limited, during the period from July 2007 to February 2009. In addition, Mr. CHAN is a shareholder and director of a business consultancy firm established by himself and others since 2001.

## SUPERVISORS

**Ms. Shu Ling**, aged 36, is the operation controller of the Company. Ms. Shu graduated from Guizhou Education University in the PRC with a bachelor degree in biology education. Ms. Shu joined the Company in November 1998 and is currently responsible for production of the Company.

**Mr. Chen Zhen Zhi**, aged 34, is the chief technical controller of the Company. Mr. Chen graduated from Fu Zhou University. Mr. Chen joined the Company in March 2001 and is currently responsible for technology development of the Company. Mr. Chen was appointed to be a supervisor on 25 July 2003.

**Ms. Li Xiaowei**, aged 33, is a manager of the sales administration division of the Company. Ms. Li graduated from Xian University of Technology in the PRC with a bachelor degree in electrical engineering. Before joining the Company, Ms. Li had worked with Jiangsu Yizheng Wellong Piston Ring Co., Ltd. as a equipment maintenance engineer for one year. Ms. Li joined the Company in February 2001 and is currently responsible for the administration of sales of the Company. Ms. Li was appointed to be a supervisor on 30 September 2004.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**Mr. Ng Chi Ho, Dennis**, is the qualified accountant and company secretary of the Company. Please refer to the paragraph headed "Senior Management" in this section below for further details regarding his background.

## SENIOR MANAGEMENT

**Mr. Ma Zhumao**, is the financial controller of the Company. Please refer to the paragraph headed "Director" in this section above for her background.

**Mr. Ng Chi Ho, Dennis** aged 51, is the qualified accountant and company secretary of the Company. Mr. Ng holds a Bachelor of Commerce degree from University of New South Wales, Australia. He is a chartered accountant from the Institute of Chartered Accountants in Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Ng has accumulated more than 20 years of experience in auditing, accounting, taxation, business consultancy and financial management.

**Mr. Chen Zhen Zhi**, is the chief technical controller of the Company. Please refer to the paragraph headed "Supervisors" in this section above for his background.

# REPORT OF THE SUPERVISORS

To all shareholders:

In compliance with the Company Law of the PRC, the relevant laws and regulations of Hong Kong and the Company's Articles of Association, Powerleader Science & Technology Group Limited Supervisory Committee ("Supervisory Committee") earnestly discharged its statutory supervisory duties of safeguarding the lawful interests of the shareholders of the Company.

During the year, the Supervisory Committee has reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions for business and development plans to the Board. In addition, the Supervisory Committee has performed tight inspection on the significant policies and decisions made by management of the Company so as to ensure that they were in compliance with the relevant laws and regulations and the Company's Articles of Association and in the interest of the shareholders.

The Supervisory Committee has earnestly examined the Report of the Directors and the financial statements of the Group for the year ended 31 December 2009 which is audited by SHINEWING (HK) CPA Limited to be submitted by the Board at the annual general meeting. In the course of the Company's business operations, the members of the Board and other senior management of the Company observed their fiduciary duties and worked diligently while exercising their rights or discharging their duties. We did not find any Directors and other senior management abuse of power or infringement of the interests of shareholders and employees of the Company and not in compliance with relevant laws and regulations and the Company's Articles of Association.

The Supervisory Committee is satisfied with the accomplishments attained by the Company in its various tasks and feel confident of the future development of the Company.

By the Order of the Supervisory Committee

**Shu Ling**
*Chairman of the Supervisory Committee*

Shenzhen, the PRC
30 March 2010

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

During the year, the Company was principally engaged in the design and development, manufacturing and sale of computer server system solution related hardware and software while its subsidiaries were principally engaged in value-added platform and related components agency distribution and leasing of servers and network value-added business.

Details of the principal activities of the Company's subsidiaries are set out in note 20 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 32. No dividend has been proposed by the Directors for the year ended 31 December 2009.

## DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) International Financial Reporting Standards or the accounting standards of the places in which its shares are issued.

The Company's distributable reserve as at 31 December 2009 and 2008 in the opinion of the directors was nil and RMB21,752,000 respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

## DIRECTORS AND SUPERVISORS

The Directors of the Company during the year and up to the date of this report were:

**Executive Directors:**

Mr. Li Ruijie ("Mr. Li")
Mr. Dong Weiping ("Mr. Dong")
Ms. Zhang Yunxia ("Ms. Zhang")
Mr. Ma Zhumao ("Mr. Ma")

**Non-executive Directors:**

Mr. Wang Lixin ("Mr. Wang")
Mr. Sun Wei ("Mr. Sun")
Mr. Li Donglei

**Independent non-executive Directors:**

| | |
|---|---|
| Dr. Guo Wanda | |
| Mr. Jiang Baijun | |
| Mr. Yim Hing Wah | (deceased in July 2009) |
| Mr. Chan Shiu Yuen Sammy | (appointed on 10 December 2009) |

**Supervisors:**

Mr. Chen Zhen Zhi
Ms. Shu Ling
Ms. Li Xiaowei

# DIRECTORS' REPORT

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including the executive, non-executive and independent non-executive Directors) has entered into a service contract with the Company, in each case, for a term of three years, except for non-executive directors for a term of one year, since the date of their appointments, subject to the right of termination as stipulated in the relevant service agreement. The basic salary of each of the Directors for the year ended 31 December 2009 is set out below:

| Name of Director | RMB |
|---|---|
| *Executive Directors:* | |
| Mr. Li | 180,000 |
| Mr. Dong | 315,000 |
| Ms. Zhang | 180,000 |
| Mr. Ma | 180,000 |
| *Non-executive Directors:* | |
| Mr. Wang | — |
| Mr. Sun | 48,000 |
| Mr. Li Donglei | 48,000 |
| *Independent non-executive Directors:* | |
| Dr. Guo Wanda ("Dr. Guo") | 48,000 |
| Mr Yim Hing Wah | 27,000 |
| Mr. Jiang Baijun ("Mr. jiang") | 48,000 |
| Mr. Chan Shiu Yuen Sammy ("Mr Chan") | 3,000 |

The service contracts with Ms. Zhang and Mr. Ma were re-entered into on 31 August 2009 while for those with Mr. Sun and Mr. Li Donglei were re-entered into on 8 May 2009. In addition, Mr. Wang has re-entered into a service contract with the Company on 12 December 2009.

Mr. Chan has entered into a new service contract with the Company on 10 December 2009 while Mr. Jiang and Dr. Guo has each re-entered into a service contract with the Company on 20 May 2009 and 6 June 2009 respectively.

In accordance with Article 92 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting:

Mr. Li
Mr. Dong
Mr. Wang
Mr. Sun
Mr. Li Donglei
Mr. Jiang

Mr. Chan, whom was appointed during the year ended 31 December 2009, also seeks for re-election at the forthcoming annual general meeting.

# DIRECTORS' REPORT

Each of the supervisors has entered into a service contract with the Company, in each case, for a term of three years since the date of their appointment, subject to termination in certain circumstances as stipulated in the relevant service contract. The basic salary of each of the supervisors for the year ended 31 December 2009 is set out below:

| Name of Supervisor | RMB |
|---|---|
| Mr. Chen Zhen Zhi | 120,000 |
| Ms. Shu Ling | 108,000 |
| Ms. Li Xiaowei | 60,000 |

Save as disclosed herein, there are no existing or proposed service contracts with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 31 December 2009, the interests or short positions of the directors, supervisors and chief executive of the Company and their associates in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under relevant provisions of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by the Directors were as follows:

**(a) Shares of the Company**

| Name of Director | Number of Domestic Shares held by a controlled corporation | Approximate percentage of the Company's issued share capital | Approximate percentage of the Company's issued Domestic Shares |
|---|---|---|---|
| Mr. Li (Note) | 1,021,845,000 | 45.26% | 61.93% |
| Ms. Zhang (Note) | 1,021,845,000 | 45.26% | 61.93% |

Note: Mr. Li is the husband of Ms. Zhang. They hold in aggregate 1,021,845,000 Domestic Shares through Powerleader Investment Holding Company Limited ("Powerleader Investment") which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

**(b) Shares in an associated corporation — Ex-Channel Group Limited (Note)**

| Name of director | Beneficial owner | Number of shares held by a controlled corporation | Total | Approximate percentage of the issued share capital of Ex-channel Group Limited |
|---|---|---|---|---|
| Mr. Li | — | 3,000,000 | 3,000,000 | 10% |
| Mr. Dong | 3,000,000 | — | 3,000,000 | 10% |

Note: Ex-Channel Group Limited is an 80% indirectly owned subsidiary of the Company.

# DIRECTORS' REPORT

**(c) Shares in an associated corporation — 深圳市宝騰互聯科技有限公司 (Note 1)**

| Name of director | Number of shares held by a controlled corporation | Approximate percentage of the issued share capital of 深圳市宝騰互聯科技有限公司 |
|---|---|---|
| Mr. Li (Note 2) | 2,500,000 | 25% |
| Ms. Zhang (Note 2) | 2,500,000 | 25% |

Note 1: 深圳市宝騰互聯科技有限公司 is a 75% directly owned subsidiary of the Company.

Note 2: Mr. Li is the husband of Ms. Zhang. They hold in aggregate 2,500,000 shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 31 December 2009, none of the directors, supervisors and chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under relevant provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

Up to 31 December 2009, the Company has not adopted any share option scheme and not granted any option.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the year, the Company or any of its subsidiaries was not a party to any arrangements to enable the Directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the Directors or the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2009, the Directors are not aware of any other interests and short positions in shares and underlying shares or debentures of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

**Long positions in Domestic Shares**

| Name of Shareholders | Number of Domestic Shares | Capacity | Approximate percentage of the Company's issued share capital | Approximate percentage of the Company's issued Domestic Shares |
|---|---|---|---|---|
| Powerleader Investment Holding Company Limited (Note) | 1,021,845,000 | Beneficial owner | 45.26% | 61.93% |

Note: Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively, holds in aggregate 1,021,845,000 Domestic Shares.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major customers and suppliers are as follows:

| | |
|---|---|
| Sales | |
| — the largest customer | 8% |
| — five largest customers combined | 22% |
| Purchase | |
| — the largest supplier | 42% |
| — five largest supplies combined | 69% |

None of the Directors, supervisors, their associates or any shareholder of the Company (which to the knowledge of the Directors and supervisors owns more than 5% of the Company's issued share capital) had an interest in any of the five largest suppliers or customers of the Group.

## COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group as at 31 December 2009.

## CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Board, the Company had complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM for the year.

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Group's auditors in matters coming within the scope of the Group audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises three independent non-executive Directors, namely Mr. Jiang Baijun, Dr. Guo Wanda and Mr. Chan Shiu Yuen Sammy. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2008 and the three quarterly reports of 2009. In addition, the Committee has also reviewed the annual results for the year ended 31 December 2009 and was of the opinion that the preparation of such results complied with the applicable standards and requirements of the Stock Exchange and other regulations.

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings and there was no restriction against such rights under the laws of the PRC.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## AUDITOR

SHINEWING (HK) CPA Limited has acted as auditor of the Company for the three years ended 31 December 2009. A resolution will be submitted to the annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company.

On behalf of the Board
**LI RUIJIE**
*CHAIRMAN*

Shenzhen,the PRC
30 March 2010

# INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

**SHINEWING** (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE MEMBERS OF
**POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED**
*(established in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Powerleader Science & Technology Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 79, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**SHINEWING (HK) CPA Limited**
Certified Public Accountants
**Chan Wing Kit**
Practising Certificate Number: P03224

Hong Kong
30 March 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

| | NOTES | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| Turnover | (7) | **802,373** | 810,674 |
| Cost of sales | | **(721,486)** | (723,049) |
| Gross profit | | **80,887** | 87,625 |
| Other operating income | (8) | **29,218** | 19,892 |
| Distribution costs | | **(25,932)** | (26,016) |
| Administrative and other expenses | | **(37,314)** | (33,582) |
| Finance costs | (9) | **(17,442)** | (11,769) |
| Gain on deemed disposal of interest in an associate | (10) | **—** | 14,477 |
| Share of profit from an associate | | **7,765** | 5,998 |
| Profit before taxation | | **37,182** | 56,625 |
| Taxation | (11) | **(7,467)** | (3,371) |
| Profit for the year and total comprehensive income for the year | (12) | **29,715** | 53,254 |
| Profit and total comprehensive income attributable to: | | | |
| Owners of the Company | | **27,550** | 50,015 |
| Minority interests | | **2,165** | 3,239 |
| | | **29,715** | 53,254 |
| Earnings per share | (16) | | |
| Basic and diluted | | **1.22 cents** | 2.22 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

| | NOTES | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | (17) | **228,490** | 146,240 |
| Prepaid lease payments | (18) | **1,554** | 1,590 |
| Deferred development costs | (19) | **35,907** | 29,637 |
| Interest in an associate | (21) | **34,730** | 29,260 |
| Available-for-sale investment | (22) | **5,000** | 5,000 |
| Prepayment for acquisition of buildings | | **1,870** | — |
| Deferred tax assets | (23) | **—** | 889 |
| | | **307,551** | 212,616 |
| Current assets | | | |
| Prepaid lease payments | (18) | **36** | 36 |
| Inventories | (24) | **103,794** | 88,034 |
| Finance lease receivables | (25) | **173** | 114 |
| Amount due from a related company | (26) | **3,194** | 1,831 |
| Amount due from an associate | (27) | **467** | 356 |
| Amount due from a shareholder | (28) | **77** | 504 |
| Trade and bills receivables | (29) | **327,440** | 229,497 |
| Other receivables, deposits and prepayments | (30) | **89,467** | 39,536 |
| Pledged bank deposits | (31) | **94,023** | 3,249 |
| Restricted bank balances | (31) | **28,816** | 11,276 |
| Bank balances and cash | (32) | **204,028** | 172,693 |
| | | **851,515** | 547,126 |
| Current liabilities | | | |
| Trade and bills payables | (33) | **190,875** | 80,871 |
| Other payables and accrued charges | | **35,652** | 47,196 |
| Receipts in advance | | **6,932** | 8,093 |
| Tax payable | | **12,330** | 8,042 |
| Bank and other borrowings — due within one year | (34) | **383,382** | 121,863 |
| Obligation under a finance lease — due within one year | (35) | **349** | 317 |
| | | **629,520** | 266,382 |
| Net current assets | | **221,995** | 280,744 |
| | | **529,546** | 493,360 |
| Capital and reserves | | | |
| Share capital | (36) | **225,750** | 225,750 |
| Reserves | | **167,878** | 135,528 |
| Equity attributable to owners of the Company | | **393,628** | 361,278 |
| Minority interests | | **15,701** | 12,196 |
| Total equity | | **409,329** | 373,474 |
| Non-current liabilities | | | |
| Deferred tax liabilities | (23) | **4,220** | 2,425 |
| Bank and other borrowings — due after one year | (34) | **115,873** | 116,988 |
| Obligation under a finance lease — due after one year | (35) | **124** | 473 |
| | | **120,217** | 119,886 |
| | | **529,546** | 493,360 |

The consolidated financial statements on pages 32 to 79 were approved and authorised for issue by the board of directors on 30 March 2010 and are signed on its behalf by:

**Li Ruijie**
*Director*

**Dong Weiping**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Statutory surplus reserve** RMB'000 | **Retained profits** RMB'000 | **Sub-total** RMB'000 | **Minority interests** RMB'000 | **Total** RMB'000 |
| 1 January 2008 | 225,750 | 29,956 | 55,557 | 311,263 | 11,317 | 322,580 |
| Total comprehensive income for the year | — | — | 50,015 | 50,015 | 3,239 | 53,254 |
| Appropriation | — | 4,931 | (4,931) | — | — | — |
| Dividends paid to minority shareholders | — | — | — | — | (2,420) | (2,420) |
| Capital contributed by minority shareholders of subsidiaries | — | — | — | — | 60 | 60 |
| At 31 December 2008 and 1 January 2009 | 225,750 | 34,887 | 100,641 | 361,278 | 12,196 | 373,474 |
| Total comprehensive income for the year | — | — | 27,550 | 27,550 | 2,165 | 29,715 |
| Appropriation | — | 3,591 | (3,591) | — | — | — |
| Capital contributed by minority shareholders of subsidiaries | — | — | — | — | 140 | 140 |
| Deemed capital contributed by minority shareholders of a subsidiary (note 40) | — | — | 4,800 | 4,800 | 1,200 | 6,000 |
| At 31 December 2009 | 225,750 | 38,478 | 129,400 | 393,628 | 15,701 | 409,329 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | 37,182 | 56,625 |
| Adjustments for: | | |
| Interest income | (1,750) | (1,332) |
| Finance costs | 17,442 | 11,769 |
| Fair value gain on financial assets held for trading | (517) | — |
| Depreciation of property, plant and equipment | 5,056 | 4,267 |
| Amortisation of deferred development costs | 11,590 | 10,603 |
| Amortisation of prepaid lease payments | 36 | 36 |
| Allowance for bad and doubtful debts | 47 | 1,399 |
| Bad debts written off | 478 | 173 |
| Reversal of bad and doubtful debt | (7,558) | (383) |
| Allowance for inventories | 19 | 1,430 |
| Reversal of allowance for inventories | (5,738) | — |
| Share of profit from an associate | (7,765) | (5,998) |
| Gain on deemed disposal of interest in an associate | — | (14,477) |
| Loss (gain) on disposal of property, plant and equipment | 883 | (447) |
| Written off property, plant and equipment | — | 89 |
| Operating cash flows before movements in working capital | 49,405 | 63,754 |
| Increase in inventories | (10,041) | (19,492) |
| (Increase) decrease in trade and bills receivables | (90,910) | 9,562 |
| (Increase) decrease in other receivables, deposits and prepayments | (49,087) | 15,692 |
| (Increase) decrease in finance lease receivables | (59) | 1,366 |
| Increase (decrease) in trade and bills payables | 110,004 | (39,908) |
| (Decrease) increase in other payables and accrued charges | (6,069) | 5,117 |
| Decrease in receipts in advance | (1,161) | (477) |
| Net cash generated from operations | 2,082 | 35,614 |
| Income tax paid | (495) | (1,026) |
| **NET CASH FROM OPERATING ACTIVITIES** | 1,587 | 34,588 |
| **INVESTING ACTIVITIES** | | |
| (Increase) decrease in restricted bank balances and pledged bank deposits | (108,314) | 15,708 |
| Purchase of property, plant and equipment | (88,403) | (68,100) |
| Deferred development costs paid | (17,634) | (16,149) |
| Prepayment for acquisition of buildings | (1,870) | — |
| Advances to a related company | (1,363) | (539) |
| Payment for acquisition of financial assets held for trading | (1,147) | — |
| Advances to an associate | (111) | (356) |
| Dividends received from an associate | 2,295 | — |
| Proceeds from disposal of financial assets held for trading | 1,664 | — |
| Interest received | 921 | 1,332 |
| Repayment from (advances to) a shareholder | 427 | (504) |
| Proceeds from disposal of property, plant and equipment | 255 | 2,206 |
| Purchase of available-for-sale investment | — | (5,000) |
| **NET CASH USED IN INVESTING ACTIVITIES** | (213,280) | (71,402) |
| **FINANCING ACTIVITIES** | | |
| New bank loans raised | 501,770 | 277,462 |
| Capital contribution from minority shareholders | 140 | 60 |
| Repayment of bank loans | (242,500) | (191,128) |
| Interest paid | (16,003) | (12,127) |
| Repayment of obligations under a finance lease | (317) | (196) |
| Interest paid on obligations under a finance lease | (62) | (58) |
| Dividends paid to minority shareholders | — | (2,420) |
| **NET CASH FROM FINANCING ACTIVITIES** | 243,028 | 71,593 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 31,335 | 34,779 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | 172,693 | 137,914 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** represented by bank balances and cash | 204,028 | 172,693 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 1. GENERAL

Powerleader Science & Technology Group Limited (the "Company") was established in the People's Republic of China (the "PRC") on 20 August 1997 as a private-owned company and became a joint stock limited company on 31 July 2001. The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placement.

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

The consolidated financial statements are presented in Renminbi (the "RMB"), which is the same as the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

The Group is a server solutions provider in the PRC. It operates in the PRC and Hong Kong and is principally engaged in (i) design and development, manufacturing and sale of computer server system solution related hardware and software; (ii) value-added platform and related components agency distribution; and (iii) leasing of servers and network value-added business. The principal activities of its subsidiaries are set out in Note 20.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) — Interpretations ("INT") 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) — INT 13 | Customer Loyalty Programmes |
| HK(IFRIC) — INT 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) — INT 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) — INT 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

**New and revised HKFRSs affecting presentation and disclosure only**

*HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

**New and revised HKFRSs affecting presentation and disclosure only (continued)**

*HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities. (see Note 7)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[5] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6] |
| HKFRS 1 (Revised) | First-time Adoption of HKFRS[1] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) — INT 14 (Amendment) | Prepayments of a Minimum Funding Requirement[5] |
| HK(IFRIC) — INT 17 | Distribution of Non-cash Assets to Owners[1] |
| HK(IFRIC) — INT 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Interest in an associate**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Income from repair services and network supporting services, are recognised when the services are provided.

Rental income from leasing of computer servers under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

**Property, plant and equipment**

Property, plant and equipment, other than construction in progress, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of other items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

**Leasehold land and buildings under development for future owner-occupied purpose**

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and included in the construction in progress. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

*Leasehold land and buildings*

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

**Research and development expenditures**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Research and development expenditures (continued)**

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation for intangible assets is provided on a straight-line basis over their estimated useful lives.

**Impairment of tangible and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately.

**Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is calculated using the first-in, first-out method.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

***Financial assets (continued)***

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL represented financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including finance lease receivables, amount due from a shareholder, amount due from a related company, amount due from an associate, trade and bills receivables, other receivables, refundable deposits, pledged bank deposits, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy in respect of impairment of financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at the end of each reporting period (see accounting policy in respect of impairment of financial assets below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average of credit period of three to six months, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

Other financial liabilities (including trade and bills payables, other payables and accrued charges, bank and other borrowings and obligations under a finance lease) are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that day. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

**Government grants**

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

**Borrowing costs**

Borrowing costs directly attributable to the requisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowings costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Estimated useful lives of property, plant and equipment**

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**Estimated impairment of deferred development costs**

The Group tested annually whether the deferred development costs had suffered any impairment loss in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units were determined based on value-in-use calculations and a suitable discount rate in order to calculate the present value. These calculations required the use of estimates.

**Allowance for inventories**

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow moving items. Allowance for inventories of approximately RMB19,000 (2008: RMB1,430,000) was recognised for the year ended 31 December 2009.

**Estimated allowance for bad and doubtful debts**

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisable value of the trade and other receivables, including the current creditworthiness and the past collection history of each customer and other debtors. If the financial conditions of customers and other debtors of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional allowance may be required. Allowance for bad and doubtful debts of approximately RMB47,000 (2008: RMB1,399,000) was recognised for the year ended 31 December 2009.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings disclosed in Note 34, and cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital as disclosed in Note 36 and reserves as disclosed in consolidated statement of changes in equity.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| *Financial assets* | | |
| Loans and receivables (including cash and cash equivalents) | **740,331** | 456,153 |
| Available-for-sale investment | **5,000** | 5,000 |
| *Financial liabilities* | | |
| Other financial liabilities | **726,255** | 367,708 |

### (b) Financial risk management objectives and policies

The Group's principal financial instruments to raise finance for the Group's operations comprise bank and other borrowings. The Group has various other financial instruments such as amount due from a shareholder, amount due from an associate, amount due from a related company, trade and bills receivables, other receivables, refundable deposits, pledged bank deposit, restricted bank balances, bank balances and cash, trade and bills payables, other payables and accrued charges, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, currency risk, interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

***Credit risk***

The Group's credit risk is primarily attributable to its trade and bills receivables, other receivables, restricted bank balances, pledged bank deposits, bank balances and cash. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which account for more than 90% (2008: more than 90%) of the total trade receivables as at 31 December 2009.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC and banks with high credit ratings assigned by international credit-rating agencies.

None of financial assets are secured by collateral or other credit enhancements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies (continued)

***Currency risk***

The Company and several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 63% (2008: 68%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 13% (2008: 14%) of costs are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2009 RMB'000** | 2008 RMB'000 | **2009 RMB'000** | 2008 RMB'000 |
| US dollars ("USD") | **253,332** | 101,902 | **331,172** | 233,498 |
| Hong Kong dollars ("HKD") | **—** | 774 | **615** | 208 |
| Euro | **—** | 383 | **—** | 1 |

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*Sensitivity analysis*

The Group is mainly exposed to USD and the directors of the Company consider that the risk exposed to HKD and Euro is not material.

The following table details the Group's sensitivity to a 5% (2008: 5%) increase or decrease in Renminbi against US dollars. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in USD. The sensitivity analysis includes only outstanding USD denominated monetary items and adjusts their translation at the year end for a 5% (2008: 5%) change in currency rates. A positive number below indicates an increase in post-tax profit where USD strengthen 5% (2008: 5%) against Renminbi. For a 5% (2008: 5%) weakening of USD against Renminbi, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Profit or loss | **3,892** | 6,580 |

The Group's sensitivity to foreign currency has decreased during the current year mainly due to the increase in foreign currency denominated bank loans as at 31 December 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies (continued)

***Interest rate risk***

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings as detailed in Note 34. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to pledged bank deposits, restricted bank balances as detailed in Note 31, bank balances as detailed in Note 32 and variable-rate borrowings as detailed in Note 34. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB Base Lending Rate stipulated by the People's Bank of China arising from the Group's RMB denominated borrowings.

*Sensitivity analysis*

At 31 December 2009, if interest rates had been increased/decreased by 100 basis points (2008: 100) and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2009 would decrease/increase by approximately RMB627,000 (2008: RMB198,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same basis for 2008.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surplus and the raising of loans to cover expected cash demands, subject to approval by the Company's directors when the borrowings exceed certain predetermined levels of authority.

The Group relies on bank borrowings and bills payables as a significant source of liquidity. As at 31 December 2009, the Group had available unutilised bank facilities of approximately RMB272,748,000 (2008: RMB234,104,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk.

For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies (continued)

***Liquidity risk (continued)***

*Liquidity table*

| | Within 1 month RMB'000 | 1–3 months RMB'000 | 4–6 months RMB'000 | 6 months to 1 year RMB'000 | 1–5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount at 31/12/2009 RMB'000 |
|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and bills payables | 92,231 | 95,537 | 3,107 | — | — | 190,875 | 190,875 |
| Other payables and accrued charges | 35,652 | — | — | — | — | 35,652 | 35,652 |
| Obligation under a finance lease | 32 | 95 | 95 | 157 | 127 | 506 | 473 |
| Bank loans | | | | | | | |
| — fixed rate | 6,605 | 66,043 | 22,600 | 82,124 | — | 177,372 | 172,713 |
| — variable rate | 69,081 | 19,399 | 9,737 | 96,493 | 74,336 | 269,046 | 258,420 |
| Other borrowings — fixed rate | — | — | — | 31,990 | 45,591 | 77,581 | 68,122 |
| | 203,601 | 181,074 | 35,539 | 210,764 | 120,054 | 751,032 | 726,255 |

| | Within 1 month RMB'000 | 1–3 months RMB'000 | 4–6 months RMB'000 | 6 months to 1 year RMB'000 | 1–5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount at 31/12/2008 RMB'000 |
|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and bills payables | 52,804 | 27,571 | 496 | — | — | 80,871 | 80,871 |
| Other payables and accrued charges | 47,195 | — | — | 1 | — | 47,196 | 47,196 |
| Obligation under a finance lease | 32 | 63 | 94 | 190 | 506 | 885 | 790 |
| Bank loans | | | | | | | |
| — fixed rate | 175 | 351 | 526 | 35,751 | — | 36,803 | 35,000 |
| — variable rate | 4,632 | 25,858 | 28,587 | 34,079 | 55,986 | 149,142 | 136,863 |
| Other borrowings — fixed rate | — | — | — | 3,990 | 77,581 | 81,571 | 66,988 |
| | 104,838 | 53,843 | 29,703 | 74,011 | 134,073 | 396,468 | 367,708 |

### (c) Fair value of financial instruments

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturity.

The fair values of obligation under a finance lease and bank and other borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold and leasing of computer servers, net of discounts, returns and sales related taxes, by the Group to outside customers.

**Segment information**

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. The adoption of HKFRS 8 changed the basis of measurement of segment profit or loss. The chief operating decision maker of the Group has been identified as the Chief Executive.

The Group is currently organised its operations into three (2008: three) reportable segments — server system solutions, value-added platform and related components agency distribution and leasing of servers and network value-added business. The principal activities of the reportable segments are as follows:

| | | |
|---|---|---|
| Server system solutions | — | Design, development, manufacture and sales of servers solutions and related products |
| Value-added platform and related components agency distribution | — | Trading of platform and related components |
| Leasing of servers and network value-added business | — | Provision of leasing and maintenance services for servers and internet value-added services |

**Segment revenues and results**

The following is an analysis of the Group's revenue and results by reportable segment.

*For the year ended 31 December 2009*

| | Server system solutions RMB'000 | Value-added platform and related components agency distribution RMB'000 | Leasing of servers and network value-added business RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| TURNOVER | 273,768 | 527,016 | 1,589 | 802,373 |
| Segment profit (loss) | 27,430 | 18,223 | (1,061) | 44,592 |
| Finance costs | | | | (17,442) |
| Fair value gain on financial assets held for trading | | | | 517 |
| Share of profit from an associate | | | | 7,765 |
| Unallocated interest income | | | | 1,750 |
| Profit before taxation | | | | 37,182 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

**Segment revenues and results (continued)**

*For the year ended 31 December 2008*

| | Server system solutions RMB'000 | Value-added platform and related components agency distribution RMB'000 | Leasing of servers and network value-added business RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| TURNOVER | 250,750 | 557,456 | 2,468 | 810,674 |
| Segment profit (loss) | 16,308 | 19,280 | (2,053) | 33,535 |
| Finance costs | | | | (11,769) |
| Gain on deemed disposal of an associate | | | | 14,477 |
| Share of profit from an associate | | | | 5,998 |
| Net exchange gains | | | | 13,052 |
| Unallocated interest income | | | | 1,332 |
| Profit before taxation | | | | 56,625 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of share of profit from an associate, investment income, net exchange gains and finance costs. This is the measure reported to the Chief Executive for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable segments:

| Segment assets | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Server system solutions | 478,830 | 328,382 |
| Value-added platform and related components agency distribution | 313,970 | 209,162 |
| Leasing of servers and network value-added business | 4,142 | 5,162 |
| Total segment assets | 796,942 | 542,706 |
| Unallocated | 362,124 | 217,036 |
| Consolidated assets | 1,159,066 | 759,742 |

| Segment liabilities | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Server system solutions | 136,750 | 86,768 |
| Value-added platform and related components agency distribution | 78,784 | 45,831 |
| Leasing of servers and network value-added business | 533 | 1,376 |
| Total segment liabilities | 216,067 | 133,975 |
| Unallocated | 533,670 | 252,293 |
| Consolidated liabilities | 749,737 | 386,268 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

**Segment assets and liabilities (continued)**

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interest in an associate pledged bank deposits, restricted bank balances, bank balances and cash and deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than payable for construction-in-progress, bank and other borrowings, current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

**Other segment information**

The following is an analysis of the Group's other segment information by reportable segments.

*For the year ended 31 December 2009*

| | Server system solutions RMB'000 | Value-added platform and related components agency distribution RMB'000 | Leasing of servers and network value-added business RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | |
| Additions to non-current assets | 106,042 | 291 | 197 | 106,530 |
| Amortisation of deferred development costs | 11,590 | — | — | 11,590 |
| Depreciation of property, plant and equipment | 4,256 | 65 | 961 | 5,282 |
| Loss on disposal of property, plant and equipment | — | — | 883 | 883 |
| Amortisation of prepaid lease payments | 36 | — | — | 36 |
| Allowance for inventories | — | — | 19 | 19 |
| Reversal of allowance for inventories | (5,121) | (617) | — | (5,738) |
| Allowance for bad and doubtful debts | — | — | 47 | 47 |
| Reversal of bad and doubtful debt | (2,530) | (5,000) | (28) | (7,558) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

**Other segment information (continued)**

*For the year ended 31 December 2008*

| | Server system solutions RMB'000 | Value-added platform and related components agency distribution RMB'000 | Leasing of servers and network value-added business RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | |
| Additions to non-current assets | 86,519 | 9 | 190 | 86,718 |
| Amortisation of deferred development costs | 10,603 | — | — | 10,603 |
| Depreciation of property, plant and equipment | 3,002 | 21 | 1,528 | 4,551 |
| Gain on disposal of property, plant and equipment | — | — | (447) | (447) |
| Written off property, plant and Equipment | 89 | — | — | 89 |
| Amortisation of prepaid lease payments | 36 | — | — | 36 |
| Allowance for inventories | 654 | 776 | — | 1,430 |
| Allowance for bad and doubtful debts | 1,170 | — | 229 | 1,399 |
| Reversal of bad and doubtful debt | (383) | — | — | (383) |

**Geographical information**

The Group's operations are located in the region of the PRC and Hong Kong. The Group's server system solutions and leasing of servers and network value-added business divisions are located in PRC while the Group's value-added platform and related components agency distribution division is located in the PRC and Hong Kong.

The Group's revenue from external customers by geographical analysis is as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Geographical market: | | |
| PRC | 742,536 | 759,516 |
| Hong Kong | 53,597 | 50,940 |
| Others | 6,240 | 218 |
| | 802,373 | 810,674 |

Substantially all of the non-current assets of the Group are located in PRC.

**Information about major customers**

There was no customer of the corresponding years contributing over 10% of the total sales of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 8. OTHER OPERATING INCOME

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Government subsidies for technology improvement on servers and development of new technologies (Note a) | 7,939 | 3,651 |
| Interest income on bank deposits, net of amount capitalised in construction in progress RMB15,000 (2008: Nil) | 1,750 | 1,332 |
| Net exchange gain | — | 13,052 |
| Value added tax ("VAT") refunds (Note b) | 2,066 | — |
| Gain on disposal of property, plant and equipment | — | 447 |
| Reversal of bad and doubtful debt | 7,558 | 383 |
| Reversal of allowance for inventories | 5,738 | — |
| Fair value gain on financial assets held for trading | 517 | — |
| Others | 3,650 | 1,027 |
| | 29,218 | 19,892 |

Notes:

(a) Pursuant to the notices issued by the relevant government authorities, the Company was entitled to enjoy subsidies for development of new servers and other new technologies.

(b) VAT refunds represent the refund of VAT charged on qualified sales of software products by the PRC Tax bureau.

## 9. FINANCE COSTS

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Interest on bank and other borrowings wholly repayable within five years | 16,528 | 12,127 |
| Interest on finance lease | 62 | 58 |
| Imputed interest on long-term other borrowings | 1,134 | 783 |
| Total borrowing costs | 17,724 | 12,968 |
| Less: amounts capitalised | (282) | (1,199) |
| | 17,442 | 11,769 |

## 10. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

On 26 February 2008, three independent third parties had injected RMB83.2 million into the Group's associate, 深圳市中青寶網網絡科技股份有限公司 ("Powerleader Network"), as equity investment. As a result, the Group's equity interest in Powerleader Network was diluted from 30% to 20.4%.

Gain arising from this deemed disposal of partial investment in Powerleader Network amounted to approximately HK$14,477,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 11. TAXATION

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **4,709** | 2,446 |
| Hong Kong Profits Tax | **74** | 206 |
| | **4,783** | 2,652 |
| Over-provision of current tax in prior years: | | |
| Hong Kong Profits Tax | **—** | (4) |
| | **4,783** | 2,648 |
| Deferred tax (Note 23) | | |
| Current year | **2,792** | 723 |
| Attributable to a change in tax rate | **(108)** | — |
| | **7,467** | 3,371 |

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was recognised as High and New Technology Enterprise by Shenzhen Bureau of Science Technology and Information, Shenzhen Bureau of Finance, Shenzhen Municipal office of the State Administration of Taxation and Local Taxation Bureau of Shenzhen Municipality in 2009 and is subject to EIT rate of 15% for the year ended 31 December 2009 (2008: 18%). In accordance with the relevant rules and regulations in the PRC, except for 深圳市寶德計算機系統有限公司 ("寶德計算機") and 深圳市寶德軟件發展有限公司 ("寶德軟件"), all other PRC subsidiaries are subject to the EIT rate of 25% (2008: 18%).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC for unified tax rate arrangements among different types of the PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008 (the "EIT Law"). The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, there will be a transitional period of five years for the Company and its PRC subsidiaries whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22 %, 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively.

Pursuant to an approval document "Shen Guo Shui Fu Jian Mian 2005 No. 237" dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, 寶德計算機 is qualified as a production enterprise and entitles to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the years from 2007 to 2009. The application of the EIT Law has not altered the entitlement of 寶德計算機. 寶德計算機 was recognised as High and New Technology Enterprise by Shenzhen Bureau of Science Technology and Information, Shenzhen Bureau of Finance, Shenzhen Municipal office of the State Administration of Taxation and Local Taxation Bureau of Shenzhen Municipality in 2008. 寶德計算機 the income tax rate of 10% is applied for the year ended 31 December 2009 (2008: 9%).

Pursuant to an approval document "深國稅寶觀減免備案[2009 4號]" dated 11 May 2009 issued by the State Tax Bureau of Futian District, Shenzhen, 寶德軟件 is qualified as a software enterprise and entitles to EIT exemption for the years 2009 and 2010 and a 50% reduction in EIT for the years from 2011 to 2013. The application of the EIT Law has not altered the entitlement of 寶德軟件.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 11. TAXATION (CONTINUED)

The taxation for the years can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Profit before taxation | **37,182** | 56,625 |
| Tax at EIT rate of 15% (2008:18%) (Note) | **5,577** | 10,193 |
| Tax effect of income not taxable for tax purpose | **(74)** | (6,117) |
| Tax effect of expenses not deductible for tax purpose | **854** | 3,356 |
| Tax effect of tax losses not recognised | **2,841** | 79 |
| Income tax on concessionary rate | **(451)** | (3,042) |
| Effect of different tax rate of a subsidiary operating in other jurisdiction | **(7)** | (14) |
| Effect of changing in tax rate | **(108)** | — |
| Tax effect of share of profit from an associate | **(1,165)** | (1,080) |
| Over-provision in respect of prior year | **—** | (4) |
| Taxation for the year | **7,467** | 3,371 |

Note: The domestic rate in the jurisdiction, where the operation of the Group is substantially based, is used.

## 12. PROFIT FOR THE YEAR

| | Consolidated | |
|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 |
| Profit for the year has been arrived at after charging (crediting): | | |
| Total staff costs, including directors' and supervisors' emoluments | | |
| — salaries and other benefits, net of amount capitalised in deferred development cost of RMB2,468,000 (2008:RMB2,070,000) | **16,817** | 14,318 |
| — retirement benefits scheme contributions, net of amount capitalised in deferred development cost of RMB108,000 (2008: RMB139,000) | **1,118** | 742 |
| | **17,935** | 15,060 |
| Cost of inventories recognised as expenses | **721,058** | 722,855 |
| Research and development cost recognised as expenses | **803** | — |
| Auditor's remuneration | **774** | 783 |
| Depreciation of property, plant and equipment, net of amount capitalised in deferred development cost of RMB226,000 (2008: RMB284,000) | **5,056** | 4,267 |
| Amortisation of prepaid lease payments | **36** | 36 |
| Amortisation of deferred development costs | **11,590** | 10,603 |
| Allowance for inventories (included in administrative expenses) | **19** | 1,430 |
| Allowance for bad and doubtful debts (included in administrative expenses) | **47** | 1,399 |
| Loss on disposal of property, plant and equipment | **883** | — |
| Written off property, plant and equipment | **—** | 89 |
| Bad debts written off | **478** | 173 |
| Net exchange loss | **1,350** | — |
| Share of tax of an associate | **612** | 436 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2008: ten) directors were as follows:

**For the year ended 31 December 2009**

| | Other emoluments | | | |
|---|---|---|---|---|
| | Fees RMB'000 | Salaries and other benefits RMB'000 | Retirement benefits scheme contributions RMB'000 | Total emoluments RMB'000 |
| **Executive directors:** | | | | |
| Li Ruijie (Chairman) ("Mr. Li") | 180 | 39 | 3 | 222 |
| Dong Weiping (Chief Executive) ("Mr. Dong") | 315 | — | — | 315 |
| Zhang Yunxia("Ms. Zhang") | 180 | 39 | — | 219 |
| Ma Zhumao | 180 | 34 | 4 | 218 |
| **Non-executive directors:** | | | | |
| Wang Lixin | — | — | — | — |
| Sun Wei | 48 | — | — | 48 |
| Li Donglei | 48 | — | — | 48 |
| **Independent non-executive directors:** | | | | |
| Jiang Baijun | 48 | — | — | 48 |
| Guo Wanda | 48 | — | — | 48 |
| Chan Shiu Yuen Sammy (appointed on 10 December 2009) | 3 | — | — | 3 |
| Yim Hing Wah (deceased in July 2009) | 27 | — | — | 27 |
| **Supervisors** | | | | |
| Chen Zhen Zhi | 120 | 42 | 4 | 166 |
| Shu Ling | 108 | — | 4 | 112 |
| Li Xiaowei | 60 | 35 | 4 | 99 |
| | 1,365 | 189 | 19 | 1,573 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

**For the year ended 31 December 2008**

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees RMB'000 | Salaries and other benefits RMB'000 | Retirement benefits scheme contributions RMB'000 | Total emoluments RMB'000 |
| **Executive directors:** | | | | |
| Mr. Li | 180 | 30 | 2 | 212 |
| Mr. Dong | 315 | — | — | 315 |
| Ms. Zhang | 180 | 11 | 1 | 192 |
| Ma Zhumao | 180 | 27 | 4 | 211 |
| **Non-executive directors:** | | | | |
| Wang Lixin | — | — | — | — |
| Sun Wei | 76 | — | — | 76 |
| Li Donglei | 76 | — | — | 76 |
| **Independent non-executive directors:** | | | | |
| Yim Hing Wah | 48 | — | — | 48 |
| Jiang Baijun | 48 | — | — | 48 |
| Guo Wanda (appointed on 6 June 2008) | 27 | — | — | 27 |
| Lo Yu Tseng Robert (deceased in March 2008) | 20 | — | — | 20 |
| **Supervisors** | | | | |
| Chen Zhen Zhi | — | 166 | 2 | 168 |
| Shu Ling | 96 | 25 | 4 | 125 |
| Li Xiaowei | 37 | 41 | 4 | 82 |
| | 1,283 | 300 | 17 | 1,600 |

No emolument was paid by the Group to the directors as an inducement to joint or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2009 and 2008. None of the directors have waived any emoluments for the two years ended 31 December 2009 and 2008.

## 14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2008: four) were directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining individual are as follows:

| | **2009 RMB** | 2008 RMB |
|---|---|---|
| Salaries and other benefits | **191** | 171 |
| Retirement benefits scheme contributions | **4** | 4 |
| | **195** | 175 |

The emoluments of the remaining individual is within the band of nil to HK$1,000.000 (2008: nil to HK$1,000,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 15. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

## 16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year attributable to the owners of the Company of approximately RMB27,550,000 (2008: RMB50,015,000) and the weighted average number of ordinary shares of 2,257,500,000 (2008: 2,257,500,000) in issue during the year.

Diluted earnings per share is the same as basic earnings per share because the Company had no dilutive potential shares for both years.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings<br>RMB'000 | Leasehold improvements<br>RMB'000 | Plant and machinery<br>RMB'000 | Furniture, fixtures and equipment<br>RMB'000 | Motor vehicles<br>RMB'000 | Construction in progress<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2008 | 5,800 | 209 | 20,950 | 1,980 | 4,176 | 65,883 | 98,998 |
| Additions | 1,615 | — | 1,727 | 2,693 | 3,841 | 60,409 | 70,285 |
| Transfer to inventories | — | — | (1,681) | — | — | — | (1,681) |
| Disposals/written off | — | — | (2,403) | (310) | — | — | (2,713) |
| Reclassification | 69,385 | 4,796 | 110 | (363) | 253 | (74,181) | — |
| At 31 December 2008 | 76,800 | 5,005 | 18,703 | 4,000 | 8,270 | 52,111 | 164,889 |
| Additions | — | 2,701 | 5,728 | 1,080 | 424 | 78,737 | 88,670 |
| Disposals/written off | — | — | (2,836) | (104) | — | — | (2,940) |
| At 31 December 2009 | 76,800 | 7,706 | 21,595 | 4,976 | 8,694 | 130,848 | 250,619 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1 January 2008 | 966 | 209 | 10,633 | 939 | 3,084 | — | 15,831 |
| Provided for the year | 1,145 | 38 | 2,523 | 412 | 433 | — | 4,551 |
| Transfer to inventories | — | — | (868) | — | — | — | (868) |
| Eliminated on disposals/ written off | — | — | (634) | (231) | — | — | (865) |
| Reclassification | — | — | — | (84) | 84 | — | — |
| At 31 December 2008 | 2,111 | 247 | 11,654 | 1,036 | 3,601 | — | 18,649 |
| Provided for the year | 1,362 | 611 | 2,108 | 623 | 578 | — | 5,282 |
| Eliminated on disposals/ written off | — | — | (1,741) | (61) | — | — | (1,802) |
| At 31 December 2009 | 3,473 | 858 | 12,021 | 1,598 | 4,179 | — | 22,129 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2009 | 73,327 | 6,848 | 9,574 | 3,378 | 4,515 | 130,848 | 228,490 |
| At 31 December 2008 | 74,689 | 4,758 | 7,049 | 2,964 | 4,669 | 52,111 | 146,240 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

| | |
|---|---|
| Buildings | 2.38% |
| Leasehold improvements | 9.5% |
| Plant and machinery | 9.5%–19% |
| Furniture, fixtures and equipment | 19% |
| Motor vehicles | 19% |

All buildings are located in the PRC and held under medium-term leases.

The carrying values of motor vehicles includes an amount of approximately RMB1,274,000 (2008: RMB1,420,000) in respect of assets held under finance lease.

At 31 December 2008, included in the construction-in-progress was the medium-term land use right of carrying value of approximately RMB29,856,000 of which are located in the PRC and the Group was in the process of obtaining the land use right certificate. The land use right certificate was obtained during the year ended 31 December 2009.

Details of the pledged property, plant and equipment are set out in Note 34.

## 18. PREPAID LEASE PAYMENTS

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Medium-term leasehold land in PRC | 1,590 | 1,626 |
| Analysed for reporting purposes as: | | |
| Current asset | 36 | 36 |
| Non-current asset | 1,554 | 1,590 |
| | 1,590 | 1,626 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 19. DEFERRED DEVELOPMENT COSTS

| | RMB'000 |
|---|---|
| **COST** | |
| At 1 January 2008 | 44,897 |
| Additions | 16,433 |
| At 31 December 2008 | 61,330 |
| Additions | 17,860 |
| At 31 December 2009 | 79,190 |
| **ACCUMULATED AMORTISATION** | |
| At 1 January 2008 | 21,090 |
| Provided for the year | 10,603 |
| At 31 December 2008 | 31,693 |
| Provided for the year | 11,590 |
| At 31 December 2009 | 43,283 |
| **CARRYING VALUES** | |
| At 31 December 2009 | 35,907 |
| At 31 December 2008 | 29,637 |

Development costs are internally generated. The amount represents product development expenditure incurred for certain computer server products. Product development expenditure is amortised on a straight-line basis over a period of not exceeding three years from the date of commencement of commercial operations of the underlying products. The amortisation expense has been included in the administrative expenses in the consolidated statement of comprehensive income.

At 31 December 2009, development projects with an aggregate carrying amount of approximately RMB16,848,000 (2008: RMB16,433,000) were not yet available for use and their corresponding costs were not subject to amortisation for the year ended 31 December 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 20. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2009 and 2008 all of which are private limited companies, are:

| Name of subsidiary | Place of incorporation/ operation | Class of shares held | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued/registered capital held by the Company | Principal activities |
|---|---|---|---|---|---|
| Powerleader Science & Technology (H.K.) Limited ("Powerleader HK") | Hong Kong | Ordinary | US$990,000 | 100% | Investment holding |
| Ex-Channel Group Limited ("Ex-Channel") | Hong Kong | Ordinary | HKD30,000,000 | 80% | Trading of platform and accessory products and distribution of value added products |
| 深圳市寶騰互聯科技有限公司 ("寶騰互聯") | PRC* | Capital Contribution | RMB10,000,000 | 75% | Leasing of computer servers |
| 寶德計算機 | PRC* | Capital Contribution | RMB10,000,000 | 99.5% | Manufacture and sales of computer servers and related products |
| 深圳市寶德通訊技術有限公司 | PRC* | Capital Contribution | RMB1,000,000 | 90% | Development of communication equipment technology and sales of communication equipments and related products |
| 深圳市寶德物業發展有限公司 | PRC* | Capital Contribution | RMB500,000 | 99% | Inactive |
| 寶德軟件 | PRC* | Capital Contribution | RMB10,000,000 (2008: RMB5,000,000) | 99% | Software development |
| 深圳市寶通志遠發展有限公司 | PRC* | Capital Contribution | RMB10,000,000 | 99% | Trading of platform and accessory products (2008: inactive) |
| 寶德濱海科技(天津)有限公司 ("寶德濱海") | PRC* | Capital Contribution | USD13,000,000 (2008: USD4,380,000) | 100% | Property development (2008: inactive) |

Other than Ex-Channel and 寶德濱海, all subsidiaries are directly held by the Company. None of the subsidiaries had issued any debt securities at the end of both years.

* Registered under the laws of the PRC as limited liability enterprise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 21. INTEREST IN AN ASSOCIATE

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Cost of investment in an unlisted associate | 7,166 | 7,166 |
| Share of post acquisition profits and reserves, net of dividends received | 27,564 | 22,094 |
| | 34,730 | 29,260 |

On 26 February 2008, three independent third parties had injected RMB83.2 million into Powerleader Network as equity investment. As a result, the Group's equity interest in Powerleader Network was diluted from 30% to 20.4%.

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Total assets | 186,599 | 182,762 |
| Total liabilities | (16,354) | (39,333) |
| Net assets | 170,245 | 143,429 |
| Group's share of net assets of an associate | 34,730 | 29,260 |
| Revenue | 77,449 | 52,343 |
| Profit for the year | 38,067 | 30,946 |
| Group's share of result of an associate for the year | 7,765 | 20,475 |

As at 31 December 2009 and 2008, the Group had interest in the following associate:

| Name of entity | Form of business structure | Place of incorporation/ operation | Class of share held | Proportion of nominal value of registered capital held by the Group | Proportion of voting power held | Principal activities |
|---|---|---|---|---|---|---|
| Powerleader Network | Registered | PRC | Capital contribution | 20.4% | 20.4% | Provision of on-line game services |

On 11 February 2010, the shares of Powerleader Network have been listed on ChiNext of Shenzhen Stock Exchange. The shareholding of the Group on Powerleader Network was diluted from 20.4% to 15.3%.

## 22. AVAILABLE-FOR-SALE INVESTMENT

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Unlisted equity securities | 5,000 | 5,000 |

The above investment represents an investment in 5% unlisted equity interests in a private entity established in the PRC for the principal purpose of a development project in the Vietnam. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 23. DEFERRED TAXATION

| | Accelerated tax depreciation RMB'000 | Deferred development costs RMB'000 | Allowance for bad debts and inventories RMB'000 | Tax loss RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2008 | — | 4,285 | (3,472) | — | 813 |
| Charged (credited) to profit or loss | 11 | 1,058 | (346) | — | 723 |
| At 31 December 2008 | 11 | 5,343 | (3,818) | — | 1,536 |
| Charged (credited) to profit or loss | (2) | 2,945 | 2,044 | (2,195) | 2,792 |
| Change in tax rate | — | — | (108) | — | (108) |
| At 31 December 2009 | 9 | 8,288 | (1,882) | (2,195) | 4,220 |

At 31 December 2009, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of approximately RMB28,753,000 (2008: RMB783,000) available to offset against future profits. A deferred tax asset has been recognised in respect of RMB9,030,000 (2008: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB19,723,000 (2008: RMB783,000) due to the unpredictability of future profit streams of those subsidiaries. Pursuant to the relevant laws and regulations in the PRC, the unutilised tax losses can be carried forward for a period of five years from the date of incurrence.

For the purpose of statement of financial position presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Deferred tax assets | **—** | 889 |
| Deferred tax liabilities | **(4,220)** | (2,425) |
| | **(4,220)** | (1,536) |

## 24. INVENTORIES

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Raw materials | **48,524** | 41,875 |
| Work in progress | **4,926** | 2,129 |
| Finished goods | **50,344** | 44,030 |
| | **103,794** | 88,034 |

During the year, there was an increase in the net realisable value of raw materials. As a result, a reversal of write-down of inventories of RMB5,738,000 (2008: nil) has been recognised and included in other operating income in the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 25. FINANCE LEASE RECEIVABLES

Certain of the computer servers of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2009 RMB'000** | 2008 RMB'000 | **2009 RMB'000** | 2008 RMB'000 |
| Finance lease receivables comprise: | | | | |
| Within one year | **173** | 114 | **173** | 114 |
| Less: unearned finance income | **—** | — | **N/A** | N/A |
| Present value of minimum lease payments receivable as current assets | **173** | 114 | **173** | 114 |

The average lease term is 14 months. According to the lease terms, minimum lease payments equal to cash prices of the plant and machinery. There is no estimated unguaranteed residual value of assets leased under finance leases. All finance leases are denominated in RMB.

## 26. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company (as detailed in Note 42) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

| | **深圳市速必拓網絡科技有限公司 (formerly known as 深圳市寶德數碼資訊有限公司) ("速必拓")** RMB'000 |
|---|---|
| Balance as at 31 December 2009 | 3,194 |
| Balance as at 31 December 2008 | 1,831 |
| Maximum amount owed to the Company during the year | 3,194 |
| Interested directors: | Mr. Li and Ms. Zhang |

The amount is unsecured, interest-free and repayable on demand.

## 27. AMOUNT DUE FROM AN ASSOCIATE

Amount due from an associate (as detailed in Note 42) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

| | **Powerleader Network** RMB'000 |
|---|---|
| Balance as at 31 December 2009 | 467 |
| Balance as at 31 December 2008 | 356 |
| Maximum amount owed to the Company during the year | 467 |
| Interested directors: | Mr. Li and Ms. Zhang |

The amount is unsecured, interest-free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 28. AMOUNT DUE FROM A SHAREHOLDER

Amount due from a shareholder (as detailed in Note 42) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

| | **Powerleader Investment Holding Company Limited ("Powerleader Investment")** RMB'000 |
|---|---|
| Balance as at 31 December 2009 | 77 |
| Balance as at 31 December 2008 | 504 |
| Maximum amount owed to the Company during the year | 504 |
| Interested directors: | Mr. Li and Ms. Zhang |

The amount is unsecured, interest-free and repayable on demand.

## 29. TRADE AND BILLS RECEIVABLES

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Trade receivables | **256,153** | 241,613 |
| Less: allowance for doubtful debts | **(5,243)** | (12,754) |
| | **250,910** | 228,859 |
| Bills receivables | **1,523** | 638 |
| Discounted bills receivables | **75,007** | — |
| | **327,440** | 229,497 |

The Group allows credit period ranging from three to six months to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts, presented based on the invoice date, at the reporting date:

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Within 1 month | **102,314** | 76,061 |
| 1 – 3 months | **44,219** | 38,427 |
| 4 – 6 months | **55,872** | 61,735 |
| Over 6 months | **48,505** | 52,636 |
| | **250,910** | 228,859 |

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB97,963,000 (2008: RMB66,206,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days (2008: 210 days).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 29. TRADE AND BILLS RECEIVABLES (CONTINUED)

Ageing of trade receivables which are past due but not impaired:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Within 1 month | 16,585 | 6,250 |
| 1–3 months | 40,279 | 942 |
| 4–6 months | 21,814 | 6,378 |
| 6 months–1 year | 13,881 | 32,533 |
| 1–2 years | 5,404 | 20,103 |
| | 97,963 | 66,206 |

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers. These customers who trade on credit terms are subject to credit verification procedures. The Group does not hold any collateral over these balances.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history from those largest debtors of the Group, the directors consider that there is no further credit provision required in excess of the impairment loss recognised for the year.

**Movement in the allowance for doubtful debts**

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Balance at beginning of the year | 12,754 | 12,255 |
| Allowance recognised on receivables | 47 | 1,399 |
| Amount written off as uncollectible | — | (517) |
| Amount recovered during the year | (7,558) | (383) |
| Balance at end of the year | 5,243 | 12,754 |

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB5,243,000 (2008: RMB12,754,000) which have been in financial difficulties.

The Group's trade and bills receivables that are denominated in currencies other than functional currency of the Group are set out below:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| USD | 214,842 | 154,017 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 30. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Rebate receivables | 15,167 | 20,601 |
| Other receivables | 64,727 | 14,232 |
| Prepayments | 7,354 | 2,903 |
| Deposits paid | 2,219 | 1,800 |
| | 89,467 | 39,536 |

The Group's other receivable and deposits that are denominated in currencies other than functional currency of the Group are set out below:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| USD | 18,096 | 18,545 |
| HKD | 301 | 80 |

## 31. PLEDGED BANK DEPOSITS AND RESTRICTED BANK BALANCES

At 31 December 2009, pledged bank deposits represented approximately RMB63.5 million deposit pledged to banks to secure short-term bank loans of RMB76.4 million and RMB30.4 million pledged to banks to secure general banking facilities of RMB47.8 million and are therefore classified as current assets. These deposits were denominated in RMB and USD and carried interest at 0.63% to 2.25% per annum.

At 31 December 2008, pledged bank deposits represented approximately RMB3.2 million deposit pledged to a bank to secure a short-term bank loan of RMB37.8 million and general banking facilities of RMB50 million and therefore classified as current assets. This deposit was denominated in RMB and carried interest at 0.63% per annum.

At 31 December 2009 and 2008, restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers and the use of the loan. The balances carried interest at 0.36% (2008: 0.36%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in RMB.

At 31 December 2009, pledged bank deposits of approximately RMB13,853,000 (2008: nil) and restricted bank balances of approximately RMB2,312,000 (2008: RMB9,817,000) were originally denominated in USD.

## 32. BANK BALANCES

Bank balances carry interest at market rates which range from 0.01% to 1.98% (2008: 0.03% to 1.98%) per annum.

At 31 December 2009, bank balances of approximately RMB82,069,000 (2008: RMB50,573,000) and RMB314,000 (2008: RMB128,000) were originally denominated in USD and HKD respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 33. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the reporting date:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Within 1 month | 87,987 | 31,472 |
| 1–3 months | 46,271 | 30,987 |
| 4–6 months | 3,791 | 2,763 |
| Over 6 months | 2,826 | 9,843 |
| | 140,875 | 75,065 |
| Bills payables | 50,000 | 5,806 |
| | 190,875 | 80,871 |

The average credit period on purchases of goods ranging from 1 to 6 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The Group's trade and bills payable that are denominated in currencies other than functional currency of the Group are set out below:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| USD | 62,199 | 62,526 |
| HKD | — | 774 |
| Euro | — | 383 |

## 34. BANK AND OTHER BORROWINGS

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Bank loans | 431,133 | 171,863 |
| Other borrowings | 68,122 | 66,988 |
| | 499,255 | 238,851 |
| Secured loans | 144,505 | 124,213 |
| Unsecured loans | 354,750 | 114,638 |
| | 499,255 | 238,851 |
| Carrying amount repayable: | | |
| On demand or within one year | 383,382 | 121,863 |
| More than one year, but not exceeding two years | 60,437 | 46,795 |
| More than two years, but not exceeding five years | 55,436 | 70,193 |
| | 499,255 | 238,851 |
| Less: Amount due within one year shown under current liabilities | (383,382) | (121,863) |
| Amount due after one year | 115,873 | 116,988 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 34. BANK AND OTHER BORROWINGS (CONTINUED)

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2009 were as follows:

(a) The loans with an aggregated principal amount of approximately RMB30 million were guaranteed by Powerleader Investment, a company in which Mr. Li and Ms. Zhang have beneficial interests, and personal guarantees given by Mr. Li and Ms. Zhang.

(b) The loan with a principal amount of RMB40 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(c) The loan with a principal amount of RMB50 million was guaranteed by Powerleader Investment and Ex-channel, and personal guarantee given by Mr. Li.

(d) The loans with an aggregate principal amount of RMB21 million were secured by a bank deposit of approximately RMB8.4 million and guaranteed by Powerleader Investment and Ex-channel, and personal guarantee given by Mr. Li.

(e) The loan with a principal amount of RMB30 million was guaranteed by Powerleader Investment, 寶德計算機, Ex-channel and personal guarantees given by Mr. Li and Ms. Zhang.

(f) The loan with a principal amount of RMB10 million was guaranteed by Powerleader Investment, the Company and personal guarantees given by Mr. Li and Ms. Zhang.

(g) The loans with an aggregate principal amount of RMB55.4 million were secured by a bank deposit of approximately RMB55.1 million.

(h) The loans with an aggregate principal amount of RMB75 million were guaranteed by Powerleader HK and personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong.

At the end of the reporting period, the bank loans of approximately RMB258.4 million (2008: RMB136.9 million) were subject to variable annual interest rates ranging from 1.28% to 7.20% (2008: 1.85% to 8.619%) and the bank loans of RMB172.7 million (2008: RMB35 million) were subject to fixed annual interest rates ranging from 1.144% to 5.310% (2008: 5.841% to 8.217%). The fixed rate bank loans are all with maturity within one year.

During the year, the Group obtained new loans in the amount of approximately RMB501,770,000. The loans bears interest at market rates and will mature in 2009 to 2013. The proceeds were used to finance the construction in progress and general financing of the operation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 34. BANK AND OTHER BORROWINGS (CONTINUED)

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2008 were as follows:

(a) The loans with an aggregated principal amount of approximately RMB23.1 million were guaranteed by Powerleader, and personal guarantees given by Mr. Li and Ms. Zhang.

(b) The loan with an principal amount of RMB20 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(c) The loan with a principal amount of RMB19.4 million was arranged as an entrusted loan. As requested by the borrower, the Company is required to obtain guarantee from 深圳市中小企業信用擔保中心有限公司 (the "Guarantor") for the entrusted loan obtained. In order for the Guarantor to provide guarantee on the entrusted loan, Mr. Li and Ms. Zhang have given their personal guarantees to the Guarantor together with the corporate guarantee given by Powerleader Investment and 寶德計算機. In addition, the Group has pledged certain buildings with an aggregate carrying amount of approximately RMB67 million to the Guarantor.

(d) The loans with an aggregate principal amount of RMB37.8 million were secured by a bank deposit of approximately RMB3.2 million and guaranteed by Powerleader Investment, 寶德計算機 and Ex-channel, and personal guarantees given by Mr. Li and Ms. Zhang.

(e) The loans with an aggregate principal amount of approximately RMB61.6 million were guaranteed by Powerleader Investment and Ex-Channel, and personal guarantee given by Mr. Li.

(f) The loan with a principal amount of RMB10 million was guaranteed by Powerleader Investment and 寶德計算機, and personal guarantees given by Mr. Li and Ms. Zhang.

Details of the other borrowings as at 31 December 2008 and 2009 were as follows:

Other borrowing represents, a 5-year loan with principal amount of RMB70 million from 深圳市中小型企業集合債券(「集合債券」) which was organised by the local government for eligible local small and medium enterprises on 14 November 2007. Interest rate has been fixed at 5.7% per annum on the outstanding principal and shall be paid on 14 November each year from 2008 to 2012. Outstanding principal of RMB28 million, RMB21 million and RMB21 million shall be paid on 14 November 2010, 2011 and 2012 respectively. According to the "共同條款協議" of the 集合債券, the Company was required to obtain guarantee from the Guarantor for the entrusted loan obtained. In order for the Guarantor to provide guarantee on the entrusted loan, Mr. Li and Ms. Zhang, have given their personal guarantees to the Guarantor together with the corporate guarantee given by Powerleader Investment and certain buildings with an aggregate carrying amount of approximately RMB67 million was pledged to the Guarantor.

The Group's borrowings that are denominated in currencies other than functional currency of the Group are set out below:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| USD | **191,133** | 39,376 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 35. OBLIGATION UNDER A FINANCE LEASE

The analysis of the obligation under a finance lease is as follow:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2009 RMB'000** | 2008 RMB'000 | **2009 RMB'000** | 2008 RMB'000 |
| Amounts payable under a finance lease: | | | | |
| Within one year | **379** | 379 | **349** | 317 |
| In more than one year but not more than two years | **127** | 379 | **124** | 349 |
| In more than two years but not more than five years | **—** | 127 | **—** | 124 |
| | **506** | 885 | **473** | 790 |
| Less: Future finance charges | **(33)** | (95) | **N/A** | N/A |
| Present value of lease obligations | **473** | 790 | **473** | 790 |
| Less: Amount due for settlement within one year | | | **(349)** | (317) |
| Amount due for settlement after one year | | | **124** | 473 |

The Group has leased a motor vehicle under a finance lease during the year ended 31 December 2008. The lease term is 3 years and the interest rate underlying the obligation under a finance lease is fixed at the contract date of 9.62% per annum. The lease has no terms of renewal or purchase option and escalation clauses. No arrangements have been entered into for contingent rental payments.

The Group's obligation under the finance lease is secured by the lessor's charge over the leased asset.

Financial lease obligation is denominated in RMB.

## 36. SHARE CAPITAL

| | Number of shares | RMB'000 |
|---|---|---|
| Domestic shares of RMB 0.1 each | 1,650,000,000 | 165,000 |
| Foreign invested shares ("H shares") of RMB0.1 each | 607,500,000 | 60,750 |
| Total domestic shares and H shares of RMB0.1 each at 31 December 2008 and 31 December 2009 | 2,257,500,000 | 225,750 |

Pursuant to the Articles of Association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 37. OPERATING LEASES COMMITMENTS

**The Group as lessee**

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Minimum lease payments in respect of rented premises paid under operating leases during the year | **1,888** | 1,942 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Within one year | **1,321** | 989 |
| In the second to fifth year inclusive | **552** | 80 |
| | **1,873** | 1,069 |

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouse. Leases are negotiated for an average term of one to two years and rentals are fixed during the relevant lease periods.

**The Group as lessor**

Rental income from servers earned during the year was approximately RMB88,000 (2008: RMB1,013,000). Only servers of a subsidiary of the Company are held for rental purposes. They are expected to generate rental yields of 7% (2008: 7%) on an ongoing basis. All of the servers held for rental purpose have committed tenants for the next 1 year.

At the end of the reporting period, the Group had contracted with tenants for the following minimum lease payments:

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Within one year | **11** | 109 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 38. COMMITMENTS

(a) Capital commitments contracted but not provided for in respect of:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Construction-in-progress | 6,276 | 40,834 |

(b) Other commitments in respect of capital contributions in subsidiaries in respect of:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| 寶德軟件 (Note 1) | — | 4,950 |
| 寶德濱海 (Note 2) | — | 58,875 |
| | — | 63,825 |

Note 1: 寶德軟件 was established in Shenzhen, the PRC, on 11 September 2008. 99% of its equity interests is held by the Company and its registered capital is RMB10,000,000 (2008: RMB5,000,000), of which RMB9,900,000 (2008: RMB4,950,000) was paid by the Company as at 31 December 2009. 寶德軟件 was engaged in software development for trading in 2009.

Note 2: 寶德濱海 was established in Tianjin, the PRC, on 1 March 2007. 寶德濱海 is wholly-owned by Powerleader HK and its registered capital is USD13,000,000 (equivalent to RMB88,673,000), of which USD13,000,000 (equivalent to RMB88,673,000) (2008: USD4,380,000, equivalents to RMB29,915,000) was paid by Powerleader HK as at 31 December 2009. 寶德濱海 was still at its pre-operating stage as at 31 December 2009.

## 39. RETIREMENT BENEFITS SCHEME

The Group participates in a retirement benefits scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The employer's contributions vested fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

The employees of the Group in the PRC are members of the state-sponsored pension scheme operated by the Government of the PRC. The Group is required to contribute a certain percentage of its payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of comprehensive income of approximately RMB1,118,000 (2008: RMB742,000) represents contribution payable to these schemes by the Group in respect of the current accounting year. As at 31 December 2009, contributions of approximately RMB 45,000 (2008: RMB92,000) due in respect of the year ended 31 December 2009 had not been paid. The amounts were paid subsequent to the end of each reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2009, the minority shareholders of a subsidiary of the Company waived their dividend entitlement in the amount of RMB6,000,000 which was then included in other payables. The waived dividend is regarded as the deemed capital contributed by the minority shareholders.

During the year ended 31 December 2008, the Group acquired a motor vehicle under a finance lease and the inception of obligations under a finance lease amounted to RMB986,000 (2009: nil).

## 41. EVENTS AFTER THE REPORTING PERIOD

(a) On 11 January 2010, the Company and other independent third parties (the "JV Partners") entered into the articles of association in relation to the formation of an associate (the "Associate"). The Associate will be owned by the Company and the JV Partners as to 30.07% and 69.93% respectively. The registered capital of the Associate is RMB155,880,000. The Associate will be principally engaged in micro-financing and consultancy services for the development, management and financial affairs of small and medium enterprises.

(b) On 11 February 2010, the shares of Powerleader Network have been listed on ChiNext of Shenzhen Stock Exchange. The shareholding of the Group in Powerleader Network was diluted from 20.4% to 15.3%. The Group retained significant influence in Powerleader Network as Mr. Li and Ms. Zhang remained as executive directors of Powerleader Network. Powerleader Network remained as an associate of the Group.

## 42. RELATED PARTY TRANSACTIONS

Apart from the balances with a related company, an associate and a shareholder as disclosed in the consolidated statement of financial position and Notes 26, 27 and 28 respectively, at the end of the reporting period, the Group also had the following balances and transactions with its related parties:

(a) At 31 December 2009 and 2008, certain directors of the Company provided personal guarantees to certain banks for loans granted to the Group and to the Guarantor who provided guarantees for bank loans and other borrowings granted to the Group. Details of these are set out in Note 34.

(b) At 31 December 2009 and 2008, Powerleader Investment provided corporate guarantees to certain banks for loans granted to the Group and to the Guarantor who provided guarantees for bank loans and other borrowings granted to the Group. Details of these are set out in Note 34.

(c) At 31 December 2009 and 2008, the unutilised bank facilities of approximately RMB272,748,000 (2008: RMB234,104,000) was either guaranteed or jointly guaranteed by the following related parties.

| | **2009**<br>**RMB'000** | 2008<br>RMB'000 |
|---|---|---|
| Directors: | | |
| — Mr. Li | **262,491** | 234,104 |
| — Ms. Zhang | **188,848** | 234,104 |
| — Mr. Dong | **51,348** | 234,104 |
| Related company: | | |
| — Powerleader Investment | **221,400** | 178,439 |

(d) During the year, the Group had made sales amounted to approximately RMB5,245,000 (2008: RMB4,193,000) to Powerleader Network.

(e) During the year, the Group had made sales amounted to approximately RMB680,000 (2008: RMB951,000) to 速必拓.

(f) During the year, the Group paid rent amounted to approximately RMB279,000 (2008: RMB279,000) to Ms. Zhang for its office premises.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 42. RELATED PARTY TRANSACTIONS (CONTINUED)

(g) The remuneration of directors and other members of key management during the year are set out in Note 13. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(h) During the year, minority shareholders of a subsidiary of the Group, namely Mr. Dong and a company of which Mr. Li have beneficial interests waived their dividend entitlement amount of RMB6,000,000.

## 43. STATEMENT OF FINANCIAL POSITION FOR COMPANY LEVEL

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | **93,260** | 88,933 |
| Deferred development costs | **14,150** | 14,097 |
| Prepaid lease payments | **1,554** | 1,590 |
| Investments in subsidiaries | **46,827** | 32,967 |
| Investment in an associate | **704** | 3,000 |
| Prepayment for acquisition of buildings | **1,870** | — |
| Available-for-sale investment | **5,000** | 5,000 |
| | **163,365** | 145,587 |
| Current assets | | |
| Prepaid lease payments | **36** | 36 |
| Inventories | **9,528** | 7,183 |
| Amounts due from subsidiaries — due within one year (note) | **323,787** | 272,642 |
| Amount due from an associate (note) | **6** | 6 |
| Amount due from a shareholder (note) | **—** | 1,104 |
| Trade receivables | **18,212** | 37,971 |
| Other receivables, deposits and prepayments | **71,259** | 18,722 |
| Pledged bank deposits | **88,581** | 3,249 |
| Restricted bank balances | **4,102** | 11,276 |
| Bank balances and cash | **23,272** | 71,910 |
| | **538,783** | 424,099 |
| Current liabilities | | |
| Trade and bills payables | **57,503** | 23,406 |
| Other payables and accrued charges | **12,628** | 20,562 |
| Amount due to a related company — due within one year (note) | **—** | 190 |
| Amounts due to subsidiaries — due within one year (note) | **20,694** | 10,417 |
| Receipts in advance | **2,712** | 3,289 |
| Tax payable | **3,152** | 3,152 |
| Bank and other borrowings — due within one year | **278,375** | 111,863 |
| Obligation under a finance lease — due within one year | **349** | 317 |
| | **375,413** | 173,196 |
| Net current assets | **163,370** | 250,903 |
| | **326,735** | 396,490 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 43. STATEMENT OF FINANCIAL POSITION FOR COMPANY LEVEL (CONTINUED)

| | **2009 RMB'000** | 2008 RMB'000 |
|---|---|---|
| Capital and reserves | | |
| Share capital (Note 36) | **225,750** | 225,750 |
| Reserves (Note 44) | **29,988** | 52,275 |
| | **255,738** | 278,025 |
| Non-current liabilities | | |
| Deferred tax liabilities | **—** | 1,004 |
| Bank and other borrowings — due after one year | **70,873** | 116,988 |
| Obligation under a finance lease — due after one year | **124** | 473 |
| | **70,997** | 118,465 |
| | **326,735** | 396,490 |

Note: The amounts are unsecured, interest free and repayable on demand.

## 44. RESERVES

| | THE COMPANY | | |
|---|---|---|---|
| | **Statutory surplus reserve** RMB'000 | **Retained profits (accumulated losses)** RMB'000 | **Total** RMB'000 |
| At 1 January 2008 | 29,956 | 30,098 | 60,054 |
| Loss for the year | — | (7,779) | (7,779) |
| Appropriation | 567 | (567) | — |
| At 31 December 2008 | 30,523 | 21,752 | 52,275 |
| Loss for the year | — | (22,287) | (22,287) |
| At 31 December 2009 | 30,523 | (535) | 29,988 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 44. RESERVES (CONTINUED)

### (a) Basis of appropriations to reserves

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) Hong Kong Financial Reporting Standards or the accounting standards of the places in which its shares are issued.

### (b) Statutory surplus reserve

The Articles of Association of the Company requires the appropriation of 10% of profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provisions of the Articles of Association of the Company, the statutory surplus reserve can be used to (i) make up prior year losses; (ii) expand production operation; and (iii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of the Company's registered share capital.

### (c) Capital reserve

Capital reserve represents premium arising from new owners less amount capitalised as a result of the incorporation of the Company as a joint stock limited company.

### (d) Distributability of reserves

At 31 December 2009, in the opinion of the directors of the Company, the aggregate amount of reserves available for distribution to equity holders of the Company was nil (2008: approximately RMB21,752,000).

## 45. COMPARATIVE FIGURES

Certain comparative figures had been reclassified in conformity to the presentation of the consolidated financial statements for the year.

# FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Turnover | **802,373** | 810,674 | 1,150,536 | 981,862 | 978,146 |
| Profit before taxation | **37,182** | 56,625 | 61,751 | 29,695 | 50,905 |
| Taxation | **(7,467)** | (3,371) | (3,567) | (2,847) | (5,402) |
| Profit for year | **29,715** | 53,254 | 58,184 | 26,848 | 45,503 |
| Attributable to: | | | | | |
| Equity holder of the Company | **27,550** | 50,015 | 52,950 | 21,873 | 42,655 |
| Minority interests | **2,165** | 3,239 | 5,234 | 4,975 | 2,848 |
| | **29,715** | 53,254 | 58,184 | 26,848 | 45,503 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Assets and liabilities | | | | | |
| Total assets | **1,159,066** | 759,742 | 653,875 | 485,680 | 418,765 |
| Total liabilities | **(749,737)** | (386,268) | (331,295) | (213,680) | (161,812) |
| Minority interests | **(15,701)** | (12,196) | (11,317) | (13,687) | (11,483) |
| Shareholders' funds | **(393,628)** | (361,278) | 311,263 | 258,313 | 245,470 |