宝德 PowerLeader

Powerleader Science & Technology Group Limited*

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

Stock Code : 8236

中国云·宝德云
中国赢·宝德赢

ANNUAL REPORT 2010

* For identification purposes only

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This report, for which the directors of the Company (the "Directors") of Powerleader Science & Technology Group Limited (the "Company") collectively and individually accept full 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 enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

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COMPANY SECRETARY

Mr. Xu Yueming

COMPLIANCE OFFICER

Mr. Li Ruijie

AUDIT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Dong Weiping
Mr. Xu Yueming

AUDITOR

SHINEWING (HK) CPA Limited

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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 2010.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2010, the Group delivered a turnover of approximately RMB1,105,728,000, representing an increase of approximately 38% from approximately RMB802,373,000 for the year ended 31 December 2009. Audited profit attributable to shareholders was approximately RMB130,697,000, representing an increase of approximately 374% from approximately RMB27,550,000 for the year ended 31 December 2009.

RESULTS REVIEW

In 2010, due to the gradually recovering global economy and robust growth of domestic demand, turnover of the Group's business in the current year has a substantially increase as compared with that of 2009. Excluded the revenue from the deemed disposal of interest in an associate company in 2010 of approximately RMB98,952,000, operational net profit in 2010 showed a growth of 21% as compared with that of 2009.

Server System Solution Business

In the year of 2010, the overall market of server market has a fierce competition and loads of opportunities. The investment on information construction by the government and the immerging cloud computing have brought more growing points to the market. Leveraging on IPDC, HPC, partnership, 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. Server solution in 2010 has achieved a pleasing turnover, representing an increase of 57.8% as compared with that of 2009.

Value-added Platform and Related Components Agency Distribution Business

In view of the strong economy recovery both domestically and overseas, medium-to-small enterprises have an explosive growth in IT demand. In addition, the rapid growth in cloud computing, especially the growth in value-added distribution business among cloud computing basic structure unit module solution products in which Intel server unit module product line is the core line, is overwhelming. Overall turnover of value-added distribution business in 2010 has shown a year-on-year growth of 27.5% as compared with that of 2009, while the gross profit also has a substantial growth. Notwithstanding the slight decline in overall average gross profit in value-added distribution business in 2010, the net profit maintained a similar level as last year. In 2010, we have further improved our network and back-office operation support system, in order to provide faster and better support and service.

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 a 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

深圳中青宝互動網絡股份有限公司 ("Powerleader Network"), an associate in which the Group held 15.30% of its interest, is principally engaged in the development and operation of online games. On 5 February 2010, Powerleader Network successfully issued 25,000,000 shares at par value of RMB1.00 each at a public offer, and listed on the Growth Enterprise Market of the Shenzhen Stock Exchange on 11 February 2010. In the whole year of 2010, Powerleader Network successfully materialized an operational revenue of RMB79,598,000 and net profit of RMB34,509,000. 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.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT STRATEGY

2011 is the opening year of "The twelfth five year plan". 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, solutions and services in China". While developing a global strategic positioning, we also actively expand overseas market. 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, solutions 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.

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.

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 2011, 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
28 March 2011

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 of the Company have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors of the Company throughout the year ended 31 December 2010.

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 of the Company, 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 re-appointed as an independent non-executive Director for another term of three year commencing on 10 December 2010. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of three year commencing on 6 June 2010 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for another term of three year commencing on 20 May 2010. 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 2010 for a term of three year. Mr. Sun Wei and Mr. Li Donglei were also appointed on 8 May 2010 for a term of three 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 10 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)*	10/10
Mr. Dong Weiping *(Chief Executive)*	10/10
Ms. Zhang Yunxia	10/10
Mr. Ma Zhumao	10/10
Non-executive Directors	
Mr. Wang Lixin	10/10
Mr. Sun Wei	10/10
Mr. Li Donglei	10/10
Independent Non-executive Directors	
Dr. Guo Wanda	10/10
Mr. Jiang Baijun	10/10
Mr. Chan Shiu Yuen Sammy	10/10

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 of the Company 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 of the Company, 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 9 December 2010. 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 9 December 2010. 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 RMB790,000 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. Chan Shiu Yuen Sammy	4/4

All of the Group's unaudited quarterly and interim results and audited annual results for the year ended 31 December 2010 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 of the Company were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2010.

The directors of the Company's 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 2010, the Group recorded a turnover of approximately RMB1,105,728,000 and profit attributable to owners of the Company of approximately RMB130,697,000 as compared to turnover and profit attributable to owners of approximately RMB802,373,000 and approximately RMB27,550,000 respectively for the year ended 31 December 2009, representing an increase of approximately 38% and 374% respectively. Earning per share is approximately RMB5.79 cents (2009: RMB1.22 cents) and net assets per share of the Company is approximately RMB0.23 (2009: RMB0.17).

Turnover

The turnover of the Group for the year ended 31 December 2010 and the comparative figures of 2009 can be classified by business as follows:

	2010 RMB'000	2010 %	2009 RMB'000	2009 %	Change %
Turnover by business					
Server system solutions	432,023	39.1	273,768	34.1	57.8
Value-added platform and related components agency distribution	672,207	60.8	527,016	65.7	27.5
Leasing of servers and network value-added business	1,498	0.1	1,589	0.2	(5.7)
Total	1,105,728	100	802,373	100	37.8

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 2010, turnover from server system solutions and value-added platform and related components agency distribution business amounted to approximately RMB432,023,000 and RMB672,207,000 respectively (2009: RMB273,768,000 and RMB527,016,000), accounting for 39.1% and 60.8% (2009: 34.1% and 65.7%) of total sales respectively. Sales of server system solutions raised 57.8%, sales of value-added platform and related components agency distribution business raised 27.5%. More business analysis is detailed in the "Business Review" section below.

Gross Profit

	Turnover		Gross profit		Gross profit margin	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 %	2009 %
Turnover by business						
Server system solutions	432,023	273,768	81,074	56,432	19.2	20.6
Value-added platform and related components agency distribution	672,207	527,016	30,249	24,479	4.5	4.6
Leasing of servers and network value-added business	1,498	1,589	316	(24)	21.1	(1.5)
Total	1,105,728	802,373	111,639	80,887	10.1	10.0

The Group's gross profit increased from approximately RMB80,887,000 for the year ended 31 December 2009 to approximately RMB111,639,000 for the year ended 31 December 2010, representing an increase of approximately 38%.

The Group's overall gross profit margin rose from 10.0% for the year ended 31 December 2009 to approximately 10.1% for the year ended 31 December 2010. Gross profit margins of the server system solutions and the value added platform and related components agency distribution business drop slightly when compared with 2009. But the proportion of server system solutions in total revenue of the Group increased by 5%, makes the overall gross profit margin slightly increased as compared with 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Other operating income

Other operating income mainly included government subsidies for technology improvement on servers and return of value-added tax, which amounted to approximately RMB3,128,000 and RMB3,068,000 respectively for the year ended 31 December 2010, as compared to that of approximately RMB7,939,000 and RMB2,006,000 respectively for the year ended 31 December 2009.

Operating Expenses

The Group's distribution costs, administrative and other expenses for the year ended 31 December 2010 have increased by approximately 10.6% to approximately RMB69,960,000 as compared to that of approximately RMB63,246,000 for the year ended 31 December 2009. This was mainly attributable to the enhancement of research and development of the Group and the rise in employee salaries.

Financial Resources and Working Capital

As at 31 December 2010, the Group had shareholders' funds of approximately RMB523,864,000 (2009: RMB393,628,000). Current assets amounted to approximately RMB1,008,751,000 (2009: RMB851,515,000) with ample cash in hand. It mainly comprised of unrestricted bank balances and cash of approximately RMB199,059,000 (2009: RMB204,028,000), inventories of approximately RMB148,844,000 (2009: RMB103,794,000) and trade and bill receivables of approximately RMB384,983,000 (2009: RMB327,440,000). Non-current liabilities included deferred tax liabilities of approximately RMB3,361,000 (2009: RMB4,220,000), long-term bank and other borrowings of RMB59,666,000 (2009: RMB115,873,000) and non-controlling shareholders' interests of approximately RMB21,015,000 (2009: RMB15,701,000). Current liabilities mainly comprised bank and other borrowings of approximately RMB607,449,000 (2009: RMB383,382,000) and trade and bill payables of approximately RMB178,257,000 (2009: RMB190,875,000).

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 2010 (2009: 87%). In 2010, the Group circumvented its foreign exchange risk through non-deliverable forward operations.

Gearing Ratio

As at 31 December 2010, the gearing ratio of the Group was approximately 45.6% (2009: 43.1%). It is defined as the Group's interest-bearing debts over the total assets.

BUSINESS REVIEW

Server System Solution Business

Hardware aspects

In general, the server market in 2010 is more competitive and also with opportunities. Government invest in the information construction, and the growing of cloud computing brings more growth points for the market. According to the characteristics of niche market segments, Powerleader server business team insists on three principles. Firstly, in response to the demand of internet cloud computing applications, develop tailor-made products with large capacity, high density and low consumption, therefore to provide internet customers, such as instant messaging, E-commerce, video, search, download and games, with satisfied products. Secondly, the team will customize an integrated hardware solution for software developers, thus to improve the additional value of software products. Following the integrated solutions, Powerleader will broadly provide its server to customers from various industries. Finally, in order to meet the high performance computing requirements of colleges and institutes, the team designed a new generation products of Gemini and PR2760T server with high density and low consumption. The team also expanded depth-cooperation with numerous universities and research institutes, such as Xiamen University, Jilin University, China University of Technology, South China University of Technology, South China Normal University, Northwestern Polytechnical University, Disease Prevention Center of Chinese Academy of Sciences and Beijing Genomic Institute, thus to provide them with cost-effective and high availability solutions. We will laterally develop partners in region markets, and jointly deal with influential regional government education projects. Meanwhile, the Company will build expansion teams in industries of government, education, medical, video surveillance, rail transportation, broadcasting and telecommunications to longitudinally promote the industry sale growth. In projects of Chongqing Rail Transit, the

MANAGEMENT DISCUSSION AND ANALYSIS

Shenzhen Metro, Xi'an subway, as well as broadcasting programs in Guangxi and Hubei provinces, we are highly appreciated by users and partners. In view of the three principles, combined with lateral and longitudinally development in industries and region, Powerleader recorded good results in 2010, with a growth of 57.8% in turnover as compared with 2009.

In 2010, Powerleader brand marketing activities mainly included releasing and promoting of new products, in conjunction with Powerleader cloud computing and cloud solution launching. Firstly, as long as Intel recently released its new processor and server platform series of Xeon 5600 and 7500, as one of the important partner of Intel, Powerleader simultaneously released and upgraded its server to new series of 5600 and 7500, and shared the latest server technologies and products with users and customers in the first place. Secondly, with the surging of cloud computing technology, Powerleader released Power Cloud, an extremely conductive cloud computing structure solution. We suggested underlying cloud computing service module in accordance with different application requirements of enterprises and end-users in stages, which would enable customers to flexibly develop and apply cloud computing with the lowest cost. Furthermore, we exhibited our Power Cloud to externals in the aid of high-tech fair. During the period, against the two subjects of server products of 5600 and 5700 series as well as Powerleader cloud computing, the Company broadcast the information of brand and new products in the most extensive and accurate scope through the means of concentrated advertising, new products and new technology conference, document publishing of new product and technology and EDM. On 2 April, Powerleader hold a product release conference for its new servers of 5600 and 7500 series. Traditionally, the Company only releases its new products to the press, but this time we invited important local customers to share our achievements, which achieved a good result. Powerleader participated in the Twelfth China Hi-Tech Fair held at Shenzhen from November 16 2010 to November 21 2010 with a brand new image. Power Cloud, its own cloud computing integrated solution, has attract attention of plenty international and domestic visitors. The success on the Hi-Tech Fair has expanded influential scope of Powerleader products and enhanced Powerleader's international influence.

For the first half of 2010, in addition to basic product upgrading and correspond broadcasting, we also conduct brand promoting and industry interaction activities in key industries of 2010. Promoting in industries of IPDC, medical, government, rail transportation and HPC are top priorities in 2010. Through broadcasting with solutions and succeeded cases, promoting with industry seminars, authoritative industry events and other ways, Powerleader's brand influence in these industries will be enhanced, which may bring more customers and results. Among other things, target industry seminars held in Chongqing, Xi'an, Beijing and Shanghai have been recognized by the participants, and successively result in projects after the seminars. In addition, for business in other fields, such as government and energy industry, which Powerleader is seeking for, we will also gradually enter into and promote in according to situations. The Company appeared in those industries by means of brand advertising and third party activity participation, which would enhance the awareness of Powerleader in those fields.

In the second half of 2010, we launched a new wave of brand promotion for Powerleader with the focus on "Powerleader server, the intelligent IT infrastructure" and "Powerleader, a top-notch supplier of cloud computing products, solutions and services in China". The slogan of the business embodies all the existing business contents and highlights of Powerleader, and keeps up with the theme of the era of Intel computational intelligence and IT industry intelligence. By means of EDM, PR publicity, advertising and participation in events, we have created and uplifted the image of Powerleader as a maker of IT intelligence infrastructure, thereby securing a greater market share in cloud computing and virtualization hot spot applications. In the fourth quarter, we launched "China Cloud, Powerleader Cloud" and participated in Hi-Tech Fair, which broadcasted the image of China's leading cloud computing products, solution and service provider of Powerleader. Basing on the cloud structure of "Power Cloud", independently developed by Powerleader, the slogan included Powerleader's cloud technology, cloud product, cloud solution and future plans of cloud, meanwhile, Powerleader also established a cloud computing committee for its own. The Company will timely hold press conference, and will cooperate with Microsoft, CSIP, China Advanced Institute, Peking University Shenzhen Graduate School and other institutes to explore cloud computing technology and sign agreement of cloud computing strategic cooperation, which closely integrated Powerleader Cloud computing and the subjects of cloud computing age. Through EDM and media, Powerleader's "Power Cloud" has been spread out, which also enhanced the leading position of Powerleader in cloud computing field.

Software aspects

As an innovative software development company under the Powerleader Group, Powerleader Software inherited the Group's over ten years of cultures and traditions. Leveraging on more than three years' profound technology, the Company constantly developing new technologies, and committed to provide internet products and cloud computing products with high performance. In 2010, Powerleader Software has successfully transferred its traditional software business into internet business, and achieved a breakthrough in external operations, which could be mainly demonstrated by followings:

After more than half a year's operation, speed-game accelerator has taken a good position in the market of on-line game accelerating industry, and it is among the top three in the industry by influence rate and positive feedback rate. Income from our players has continued to record new heights, and the number of members has exceeded 100,000, while the software has been downloaded for more than 200,000 times, and the brand image is widely spread over the on-line game players. Speed-game has become a major source of income for Powerleader Software.

MANAGEMENT DISCUSSION AND ANALYSIS

Since its commercial operation in December 2010, E-commerce business has already completed two external orders.

In October 2010, the Company started a substantial research on cloud computing, for a cloud computing platform, Eucalyptus, we conducted a comprehensive in-depth analysis and research, and deployed a small private cloud platform. According to these, the Company has completed the feasibility study report on scheduling of virtualization resource and management platform systems.

In November 2010, the Company launched game cloud computing to the market. As a cloud platform with unique business model, the game cloud computing integrated all products and technologies of Powerleader Software, such as speed-game accelerator, CDN, load balance, VPN and firewall, and which formed a public cloud platform for games with huge capacity, full foundation and high industrialization.

R&D investment

In 2010, Powerleader computer technical center continually increased research in cloud computing, and conducted depth research in many aspects in cloud computing infrastructure, such as high density server, green energy-saving server, virtualization, uniform deployment and management platform. At the same time, we carry out product customization service according to customer's specific requirements, thus to meet the application requirements of customers from various industries. Meanwhile, the Company sustained attention to product quality improvement, and continue to improve the quality control measures under the help of professional manufacturers. Through continuous quality improvement and cost reducing, Powerleader further promoted the competitive ability of the products and customer application experiences, and also strengthen the ability to sale the products.

Honors aspects:

January 2010:	Powerleader's PR2012NS — G won "IT168 Product of the Year Award" ("IT168年度產品獎").
February 2010:	Powerleader's Ziqiang PR2760T was awarded "Outstanding Product of 2009 Award" by Zhongguancun Online (中關村在線).
June 2010:	Powerleader's high-density energy-saving servers PR2760T/PR7014B/PR6000M were reputed as new products of self-innovation by Futian District, Shenzhen.
June 2010:	Powerleader's mass-capacity data storage servers GS99221/GS90161/GS5016/GS99201/GS99401 were reputed as new products of self innovation by Futian District, Shenzhen.
June 2010:	Powerleader's multi-function green servers were honored as new products of self innovation by Futian District, Shenzhen.
June 2010:	Powerleader's high-performance servers PR1750N/PR2750N/PR2760T/PR2850Q were honored as new products of self innovation by Futian District, Shenzhen.
July 2010:	Powerleader Investment Holding Company Limited won the "Top Hundred Private Enterprises in Guangdong Province for 2008 and 2009" title.
July 2010:	Powerleader won the "Top 100 Suppliers in the CPW500 in 2010" title.
September 2010:	Powerleader server won "Highest Customer Satisfaction in the Education Sector" in IT Customer Satisfaction Surveys X86 Server in China 2010".
November 2010:	Powerleader server PR2024NS obtained the "excellent product award" on the Twelfth China International Hi-Tech Fair.

On 22 November 2010, the following projects of SHENZHEN POWERLEADER COMPUTER SYSTEM CO.,LTD won the 2010 "Shenzhen Enterprise New Records":

Green energy-saving server PR2012NS — G, being the most energy efficient domestic storage server among counterparts with 2U high-capacity;

Six-core server PR2710N QPI, being the first national wide dual server which meet green environmental protection standard;

Six-core storage workstation PR4610N, being the only national wide rackmount storage workstation;

MANAGEMENT DISCUSSION AND ANALYSIS

Gemini server PR1760T, being the national wide rackmount storage server with highest calculation accuracy among counterparts;

Blade Server PR6000M, recorded highest integration among domestic similar products;

Blade Server PR7014B recorded highest density among domestic similar products.

Value-added Server Platform and Related Components Agency Distribution Business

Benefited from economic resurgence in and abroad China, IT demands from middle and small enterprises is released in a reprisal. Coupled with the rapid growth of cloud computing market, the value-added platform and related components agency and distribution business achieved an astounding growth in overall operating income and gross profit in 2010 as compared to the corresponding period of last year. In particular, the value-added distribution business of cloud computing infrastructure components module solution products group, which mainly based on Intel server components module product line, recorded a strong growth, with total sales revenue increased by 27.5% as compared to the prior year. At the same time, the value-added distribution and service business of high-end cloud computing infrastructure solution products group, which mainly based on Fujitsu servers and storage products line, is also maintained steady growth. In the year of 2010, the overall average gross profit margin of value-added distribution business slightly decreased, however, the net profit margin is basically unchanged as compared with the previous year. In 2010, we also further optimized our distribution network and back-end operations support systems, which enabled us to support and serve our clients in prompt and better manner.

Leasing of Servers and Network Value-added Services

After the successively successful listing of ChinaNetCenter and ChinaCache principally engaged in CDN business, which has widely spread over China and recorded a great improvement in 2010, the industry competition has further intensified. For operations, benefited from talents introduction and improvements in management systems and principles, the Company has effectively controlled the operating costs, substantially increased the net profit margin of CDN products, and thus achieved the Group's substantial transformation in 2010. For products, the Company has comprehensively upgraded the CDN platform system, and a number of analysis systems have made great progress, such as monitoring systems, global load balance systems, log analysis, traffic analysis, caching systems and distribution systems. CDN system has successfully upgraded into V2.0 version, basically realized homogenizing with competitors on main functions, while some of the functions are distinctive. For teams, the Company has gradually completed sales team, R&D team, O&M team, customer service team, pre-sale team, marketing department, and established a new important client department and an O&M center providing service for 7 days a week and 24 hours a day, the establishment of new departments has made a great contribution to the increase of results and improvement of product quality. In 2010, the Company won a prize of "Internet Enterprise with Greatest Development Potential for Internet Service" on the 2nd China Internet Trading and Investment Fair (第二屆中國互聯網交易投資博覽會"網路服務"最具發展潛力互聯網企業).

Banking Facilities and Capital management

In 2010, 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.

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 2010, 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 honors for the Group. The Group raised its awareness extensively, promoted its brand effect widely and enhanced its product competitive edges in the market greatly. In application for government project funding and awards, the Group will continue to make great effort, with the cloud computing as the core content, we have obtained a number of qualification accreditations and project funding. Various government grants, production-study-research, science and technology cooperation provided financial support and technical support for our technological innovation and product upgrading. Qualification accreditations are fully demonstrating that Powerleader Group's technological innovation and transfer ability and its leading position of innovation in the industry. In 2010, the Group has received numerous highly acclaimed awards from the community. Details are shown in the followings:

January 2010: Powerleader Computer's "energy-saving and safe technology and production line upgrade for mass-capacity storage system" passed and filed for Shenzhen Technology and Information Reform of Industry and Commerce's Technological Advancement Interests Subsidy Scheme;

January 2010: Powerleader Computer received the "Shenzhen Technological Innovation Award for Environmental and Energy-saving Cause in the Computer Industry of Shenzhen" (深圳計算機行業服務器綠色節能技術創新獎) of 2009;

February 2010: Powerleader's PR2510N Servers were included into "Guangdong Catalogue of Energy-saving and Low Emission Utility Technologies and Products II" (廣東省節能減排實用技術及產品彙編II);

March 2010: Powerleader's mass-capacity data storage servers, multi-function green servers and high-density energy-saving servers passed the certification of "Product of Independent Innovation in Shenzhen" (深圳市自主創新產品);

March 2010: Cementing industrial-academic cooperation relationship with East China University of Science and Technology and Shenzhen University engaging in research and development of cloud computing projects;

April 2010: the expansion of capacity and area of Powerleader Science and Technology Park was granted the permit for the change of the planned land use, which means that Powerleader Science and Technology Park would be allowed to embark into an expansion and capacity enhancement plan;

May 2010: "GS9000 unified network storage data security device" (GS9000統一網路存儲資料安全保護器) was listed on the national plan for key new products;

May 2010: Powerleader Computer's "unified calculation storage modular technological transformation project based on SSI specification" (基於SSI規範的統一計算存儲模組化技術改造專案) was financed by the national special support fund for SME development;

June 2010: Powerleader Science and Technology Park won the "Demonstration Base for Innovative Industrialization of SMEs in Guangdong Province" title ("廣東省中小企業創新產業化示範基地"稱號);

June 2010: Powerleader's green multi-function servers, high-density energy-saving servers, high-performance servers and mass-capacity data storage servers passed the certification of "Product of Independent Innovation in Futian District, Shenzhen" (深圳市福田區自主創新產品);

July 2010: Powerleader Computer "STAT UNIX V1.0" won the Sales Permit of Specialized Product for the computer information system of The Ministry of Public Security;

August 2010: Powerleader Software won The First Scientific Software R&D Subsidy in Baoan District of 2010;

September 2010: Powerleader's software "speed swim internet accelerator (速遊網路加速器)" won special funds support for Biology, Internet and New energy sector development in Shenzhen;

October 2010: Powerleader obtained subsidies of Guangdong hi-tech industry development guide and matching funds;

October 2010: Powerleader, Powerleader Computer obtained intellectual property subsidies from Futian district government;

MANAGEMENT DISCUSSION AND ANALYSIS

November 2010: Powerleader obtained identification of key enterprise in strategic emerging industry of Guangdong province;

November 2010,Powerleader established strategic cooperation relationship with CSIP;

December 2010: Powerleader obtained subsidies of science and technology plan development funds from Futian district government;

December 2010: Powerleader Computer obtained subsidies of science and technology plan development funds from Futian district government.

Government Subsidies

During the year of 2010, 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 RMB4 million.

In 2010, 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.

An Associate

深圳中青宝互動網絡股份有限公司 ("Powerleader Network"), an associate in which the Group held a 15.30% interest, is mainly engaged in developing and operating online games. On 5 February 2010, 25,000,000 shares at par value of RMB1.00 each were successfully public issued by Powerleader Network, the Company was subsequently listed on the Growth Enterprise Market of the Shenzhen Stock Exchange on 11 February 2010. During the reporting period, Powerleader Network business developed well, operating revenue amounted to RMB79,598,000 million in 2010, and recorded a net profit of RMB34,509,000.

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

Human Resources

Human resources planning aspect

We have amended the organizational structure of the Group, clarified personal establishment, and confirmed register personal, so as to provide effective information support to staff supplement. Up to the end of 2010, 370 new employees joined in the Group, and the recruiting arrival rate reached 93%. We have also revised the "Administration on training", built up a instructors' team, designed training courses systematically and organized 187 training courses in aggregate with 2,258 participants, we have also adjusted the compensation system of the Group, and carried out administrative measures to ensure institutionalization and routinization of the compensation, meanwhile, we have set up incentive goals and implemental plans for performance appraisal, application of compensation basing on performance system has improved efficiency and accuracy.

Building a talent team

In response to the operating requirements of Powerleader Server and Powerleader Software, as well as the resolution in respective of proposal to adjust the senior management team, the Company have executed HR key service plans in stages. According to the performance improvement of each department, quality and working efficiency of staffs working in integrated management center have been improved, thereby to effectively support the development of the Group.

Implementation of corporate culture

The Company regularly conducting advertising works, such as publishing "Powerleader Windows", releasing software related information on public columns and OA forums, what's more, we also organize birthday parties for staffs. In addition, we issued various management measures to improve employee quality and to build up the "Nice Guy Syndrome" of Powerleader.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

In 2011, 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, solutions 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 reached 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 for 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 2011.

Server System Solution Business

In the year of 2011, the Company positioned itself as a top-notch supplier of cloud computing solutions in China, and launched the integrated solution of cloud computing, built a cloud application platform for CDN video games. We actively participated in the preparation of the cloud computing standards, make the joint development in cloud computing with Industry and Information Ministry, government of Shenzhen, Peking University Shenzhen Graduate School, Shenzhen Institutes of Advanced Technology, Chinese Academy of Sciences, and other government research institutions, to promote the commercialization of cloud computing. In 2011, Powerleader's server team will customize products for customers basing on cloud computing application types, which would enable us to become a customization expert in the area of cloud computing serves. We have leading advantages in customization of server products, and continuously conduct promoting in the industry and regional market, and combined with output of 2011 from investment in cloud computing division, meanwhile, we expand global strategic positioning, and actively explore overseas markets, and thus we have reasons to believe that we could hold an optimistic attitude on the business of 2011.

In the year of 2011, Powerleader Software has more opportunities and growth. With the support of three main business, namely online game accelerator, E-commerce, game cloud and related cloud computing, the Company could go on with a sustainable development concern. Online game accelerator is an innovation product generated from traditional ones, thus which would have a huge market. So far, user of online game accelerator is less than 10% of the total online game players, there is a great potential for future development. E-commerce will experience an explosive development in next three years, according to CNNIC, trading on E-commerce market is amount to RMB400 billion in China in the year of 2010, and will record a further strong growth in 2011. Our game cloud's operation model is unique in the industry, and we expect that it will bring a significant growth for the Company in 2011. The year of 2011 is the first year of cloud computing launching on the market, taking advantage of the Group's business advantages, the Company will play its own technological strength to share profits in each cloud computing project of the Group.

Value-added Server Platform and Related Components Agency Distribution Business

We will unwaveringly uphold our philosophy of further specializing, strengthening and enlarging the distribution business of value-added cloud computing server components module solutions, as well as the value-added distribution and service business of high-end cloud computing servers and storage platform solutions. We will further improve and broaden the product clusters of cloud computing server components module solutions which are based on the product lines of Intel server components as the core, and will also better meet one-stop purchase demand from customers and channel cooperative partners. We will continue to increase investment, as well as expand and improve domestic sales and service network to further enhance our core competitiveness. We will build Powerleader into the most professional and powerful provider of cloud computing server components module solutions, as well as high-end cloud computing servers and storage platform solutions in the PRC.

Cloud Computing Products, Solutions and Services

We will plan and implement Powerleader Cloud strategy, and to build standardized infrastructure specifically designed for cloud computing. We will make efforts to provide an open architecture and framework which can promote cloud interaction. The Company will become a leading manufacture in the field of cloud services delivering, thus we could provide support to the largest cloud computing in China; and apply our accumulated expertise to China's leading private clouds, which would enable customers upgrade from traditional private data centers to a new generation of cloud and data center. We will also use extended clouds as a basis for adoption of green technology.

MANAGEMENT DISCUSSION AND ANALYSIS

Leasing of Servers and Internet Value-added Business

Given a high-speed growth in the Internet and servers, in particular, by capitalizing on Powerleader Computer 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 2011.

Banking Facilities and Capital Management

In 2011, 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

We will further complete budget system of the labor costs, and to control the irregular budget expenses derivate from decision change. Through vertical expanding in recruitment means, and with the continuous improvement of brand image, we will build a talent platform for the team of "cloud computing". We will make effort to improve the updated version of "Nice Guy Syndrome", and to extensively promote " The Win Culture". Through education and training, we will extend these enterprise cultures into spiritual realm of Powerleader's staffs. At the same time, the Company will create an objective and reasonable opportunity to expand the participation of staffs, so as to procure employees feel they are the owner of the Company. In the new year, we will math up the Group's Twelfth Five-Year Plan of "cloud computing", and to undertake decisions and instructions, thus to realize a good operation in each team of HR. In the year of 2011,we will constantly develop a human resources management system suitable for the Powerleader Group, which may help our management work become more thorough and efficient.

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 of the Company, supervisors and senior management of the Company:

DIRECTORS

Executive Directors

Mr. Li Ruijie, aged 44, 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 51, 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 45, is an executive Director 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.

Mr. Ma Zhumao, aged 46, 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 42, 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 45, 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 42, 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 49, 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 of the Company's 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 45, 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 47, has more than 17 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. Mr. CHAN is currently the chief financial officer of Newtree Group Holdings Limited, the securities of which are listed on the main board of the Stock Exchange of Hong Kong Limited. 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 37, 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 35, is the general manager of Ex-Channel Group Limited, a subsidiary of the Company. Mr. Chen graduated from Fu Zhou University. Mr. Chen joined the Company in March 2001 and is currently responsible for value-added distribution work of the Company. Mr. Chen was appointed to be a supervisor on 25 July 2003.

Ms. Li Xiaowei, aged 34, 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.

COMPANY SECRETARY

Mr. Xu Yueming, aged 38, is the chief financial controller and company secretary of the Company. He was a senior manager of Shenzhen China Accounting Company from 1996 to 2002 and financial manager and company secretary of HL Corp. (Shenzhen) (深圳信隆實業股份有限公司) from 2002 to 2007. Mr. Xu joined the Company in June 2009 as a deputy financial controller and was promoted as the chief financial controller of the Company since January 2010. He has been appointed as the company secretary and authorized representative of the Company in April 2010. Mr. Xu holds a bachelor's degree in economics from Hangzhou Institute of Electronic Technology. He is a Chinese certified public accountant with the Chinese Institute of Certified Public Accountants, a Chinese certified tax agent and a qualified senior accountant in China. Mr. Xu has over 15 years of experience in auditing, accounting and financial management.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Qiu Wengui (丘文桂), aged 32, is the vice president of the Company. Mr. Qiu is an economist, and graduated from Accounting Institute, Shanghai University of Finance and Economics with bachelor degree in management and was a postgraduate of the Department of Economic Law, East China University of Political Science and Law. Since 2000, Mr. Qiu has worked as auditing supervisor, researcher and senior manager of investment bank in Shanghai Xinzhongchuang Certified Public Accountants Co., Ltd. and MasterLink Securities (H.K.) Corporation Limited. He published several research reports in both domestic and foreign media, such as Shanghai Securities News, 21st Century Economic Report, China Venture (投資中國), cnYES (壹灣鉅亨網) Masterlink Securities (元富投資理財網). Prior to joining our Company in 2006, he was the Secretary of the Board and the Director of Investment and Development of Jiada Gaoke Industry Development Ltd (深圳市嘉達高科產業發展公司). Mr. Qiu now is the vice president of our Company, responsible for group financial affairs, investment and financing, administrative and HR affairs and corporate development. Besides, he takes up several social positions, including the supervisor of Shenzhen Shenyue Joint Investment Co., Ltd, a member of Science and Technology Awards Review Committee of Science and Technology Department, Guangdong, a member of Shenzhen & Technology Committee of Experts and a member of Financial Services Committee of Shenzhen Chaoshan Chamber of Commerce.

Mr. Xu Yueming is the chief financial controller of the Company. Please refer to the paragraph headed "COMPANY SECRETARY" 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 of the Company and the financial statements of the Group for the year ended 31 December 2010 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 feels 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
28 March 2011

DIRECTORS' REPORT

The directors of the Company present their annual report and the audited financial statements for the year ended 31 December 2010.

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 consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 28. No dividend has been proposed by the directors of the Company for the year ended 31 December 2010.

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 2010 and 2009 in the opinion of the directors of the Company was nil.

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 consolidated 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. Chan Shiu Yuen Sammy

Supervisors:

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

DIRECTORS' REPORT

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors of the Company (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, 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 of the Company for the year ended 31 December 2010 is set out below:

Name of Directors	RMB
Executive Directors:	
Mr. Li	180,000
Mr. Dong	315,000
Ms. Zhang	15,000
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. Jiang Baijun ("Mr. jiang")	48,000
Mr. Chan Shiu Yuen Sammy ("Mr. Chan")	48,000

The service contracts with Mr. Sun and Mr. Li Donglei were re-entered into on 8 May 2010 while Mr. Wang has re-entered into a service contract with the Company on 12 December 2010.

Mr. Jiang and Dr. Guo has each re-entered into a service contract with the Company on 20 May 2010 and 6 June 2010 respectively while Mr. Chan has entered into a new service contract with the Company on 10 December 2010.

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 2010 is set out below:

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

Ms. Li Xiaowei has re-entered into a service contract with the Company on 30 September 2010.

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' REPORT

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

As at 31 December 2010, the interests or short positions of the directors of the Company, 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 of the Company were as follows:

(a) Shares of the Company

Name of directors	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 directors	Beneficial owner	Number of shares held by a controlled corporation	Total	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.

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

Name of directors	Number of shares held by a controlled corporation	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.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2010, none of the directors of the Company, 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 2010, 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 of the Company 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 of the Company 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.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2010, the directors of the Company 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.

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	7%
— five largest customers combined	20%
Purchase	
— the largest supplier	40%
— five largest supplies combined	71%

None of the directors of the Company, supervisors, their associates or any shareholder of the Company (which to the knowledge of the directors of the Company 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.

DIRECTORS' REPORT

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the directors of the Company, 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 2010.

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 2009 and the three quarterly reports of 2010. In addition, the Committee has also reviewed the annual results for the year ended 31 December 2010 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.

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 four years ended 31 December 2010. 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
28 March 2011

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, 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 28 to 77, which comprise the consolidated statement of financial position as at 31 December 2010, 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 of consolidated financial statements that give a true and fair view 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 and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 2010 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
28 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Turnover	(7)	**1,105,728**	802,373
Cost of sales		**(994,089)**	(721,486)
Gross profit		**111,639**	80,887
Other income	(8)	**19,014**	29,218
Distribution costs		**(29,658)**	(25,932)
Administrative and other expenses		**(40,302)**	(37,314)
Finance costs	(9)	**(24,910)**	(17,442)
Gain on deemed disposal of partial interest in an associate	(10)	**98,952**	—
Change in fair value of derivative financial instruments		**(681)**	—
Share of profit from an associate		**6,545**	7,765
Profit before taxation		**140,599**	37,182
Income tax expense	(11)	**(5,653)**	(7,467)
Profit for the year and total comprehensive income for the year	(12)	**134,946**	29,715
Profit and total comprehensive income attributable to:			
Owners of the Company		**130,697**	27,550
Non-controlling interests		**4,249**	2,165
		134,946	29,715
Earnings per share	(16)		
Basic and diluted		**5.79 cents**	1.22 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	(17)	260,423	228,490
Prepaid lease payments	(18)	1,518	1,554
Deferred development costs	(19)	36,471	35,907
Interest in an associate	(21)	137,167	34,730
Available-for-sale investment	(22)	18,000	5,000
Prepayment for acquisition of buildings		—	1,870
		453,579	307,551
Current assets			
Prepaid lease payments	(18)	36	36
Inventories	(23)	148,844	103,794
Finance lease receivables	(24)	141	173
Amount due from a related company	(25)	1,977	3,194
Amount due from an associate	(26)	—	467
Amount due from a shareholder	(27)	—	77
Trade and bills receivables	(28)	384,983	327,440
Other receivables, deposits and prepayments	(29)	84,152	89,467
Fixed bank deposits	(30)	100,000	—
Pledged bank deposits	(30)	30,689	94,023
Restricted bank balances	(30)	11,990	28,816
Bank balances and cash	(31)	199,059	204,028
		961,871	851,515
Asset held for sale	(32)	46,880	—
		1,008,751	851,515
Current liabilities			
Trade and bills payables	(33)	178,257	190,875
Other payables and accrued charges		38,917	35,652
Receipts in advance		10,199	6,932
Tax payable		17,104	12,330
Derivative financial instruments	(34)	681	—
Amount due to an associate	(26)	1,693	—
Bank and other borrowings — due within one year	(35)	607,449	383,382
Obligation under a finance lease — due within one year	(36)	124	349
		854,424	629,520
Net current assets		154,327	221,995
		607,906	529,546
Capital and reserves			
Share capital	(37)	225,750	225,750
Reserves		298,114	167,878
Equity attributable to owners of the Company		523,864	393,628
Non-controlling interests		21,015	15,701
Total equity		544,879	409,329
Non-current liabilities			
Deferred tax liabilities	(38)	3,361	4,220
Bank and other borrowings — due after one year	(35)	59,666	115,873
Obligation under a finance lease — due after one year	(36)	—	124
		63,027	120,217
		607,906	529,546

The consolidated financial statements on pages 28 to 77 were approved and authorised for issue by the board of directors on 28 March 2011 and are signed on its behalf by:

Li Ruijie	**Dong Weiping**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company					
	Share capital RMB'000	**Statutory surplus reserve** RMB'000	**Retained profits** RMB'000	**Sub-total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
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 non-controlling shareholders of subsidiaries	—	—	—	—	140	140
Deemed capital contributed by non-controlling shareholders of subsidiaries	—	—	4,800	4,800	1,200	6,000
At 31 December 2009 and 1 January 2010	225,750	38,478	129,400	393,628	15,701	409,329
Total comprehensive income for the year	—	—	130,697	130,697	4,249	134,946
Deemed disposal of partial interest in a subsidiary	—	—	(461)	(461)	461	—
Appropriation	—	11,443	(11,443)	—	—	—
Capital contributed by non-controlling shareholders of subsidiaries	—	—	—	—	2,340	2,340
Dividend paid to non-controlling shareholders	—	—	—	—	(1,736)	(1,736)
At 31 December 2010	225,750	49,921	248,193	523,864	21,015	544,879

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	140,599	37,182
Adjustments for:		
Interest income	(1,116)	(1,750)
Finance costs	24,910	17,442
Fair value gain on financial assets held for trading	(40)	(517)
Gain on disposal of available-for-sale investment	(181)	—
Change in fair value of derivative financial instruments	681	—
Depreciation of property, plant and equipment	6,182	5,056
Amortisation of deferred development costs	10,032	11,590
Amortisation of prepaid lease payments	36	36
Allowance for bad and doubtful debts	1,759	47
Bad debts written off	25	478
Reversal of bad and doubtful debt	(1,489)	(7,558)
Reversal of allowance for other receivables	(866)	—
Allowance for inventories	—	19
Reversal of allowance for inventories	—	(5,738)
Share of profit from an associate	(6,545)	(7,765)
Gain on deemed disposal of partial interest in an associate	(98,952)	—
(Gain) loss on disposal of property, plant and equipment	(29)	883
Operating cash flows before movements in working capital	75,006	49,405
Increase in inventories	(45,050)	(10,041)
Increase in trade and bills receivables	(57,838)	(90,910)
Decrease (increase) in other receivables, deposits and prepayments	6,181	(49,087)
Decrease (increase) in finance lease receivables	32	(59)
(Decrease) (increase) in trade and bills payables	(12,618)	110,004
Increase (decrease) in other payables and accrued charges	3,265	(6,069)
Increase (decrease) in receipts in advance	3,267	(1,161)
Net cash (used in) generated from operations	(27,755)	2,082
Income tax paid	(1,738)	(495)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(29,493)	1,587
INVESTING ACTIVITIES		
Acquisition of available-for-sale investments	(69,901)	—
Acquisition of property, plant and equipment	(33,498)	(88,403)
Increase in fixed bank deposits, restricted bank balances and pledged bank deposits	(19,840)	(108,314)
Deferred development costs paid	(10,218)	(17,634)
Payment for acquisition of financial assets held for trading	(633)	(1,147)
Proceeds from disposal of available-for-sale investment	10,202	—
Dividends received from an associate	3,060	2,295
Repayment from (advances to) a related company	1,217	(1,363)
Interest received	1,116	921
Proceeds from disposal of financial assets held for trading	673	1,664
Repayment from (advances to) an associate	467	(111)
Proceeds from disposal of property, plant and equipment	127	255
Repayment from a shareholder	77	427
Prepayment for acquisition of buildings	—	(1,870)
NET CASH USED IN INVESTING ACTIVITIES	(117,151)	(213,280)
FINANCING ACTIVITIES		
New bank loans raised	446,335	501,770
Capital contribution from non-controlling shareholders	2,340	140
Advance from an associate	1,693	—
Repayment of bank loans	(278,475)	(242,500)
Interest paid	(28,103)	(16,003)
Dividends paid to non-controlling shareholders	(1,736)	—
Repayment of obligations under a finance lease	(349)	(317)
Interest paid on a finance lease	(30)	(62)
NET CASH FROM FINANCING ACTIVITIES	141,675	243,028
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,969)	31,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	204,028	172,693
CASH AND CASH EQUIVALENTS AT END OF THE YEAR represented by bank balances and cash	199,059	204,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 ("HKFRS"s)

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

HKFRSs (Amendments)	Amendments to HKFRS5 as part of Improvement to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendments)	Additional Exemptions from First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK — Interpretation ("Int") 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners

HKAS 27 (Revised) Consolidated and Separate Financial Statements

The application of HKAS 27 (Revised) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) *(continued)*

HKAS 27 (Revised) Consolidated and Separate Financial Statements *(continued)*

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the deemed disposal of partial interest of the Group's interest in 深圳市宝德計算機系統有限公司 in the current year, the impact of the application of HKAS 27 (Revised) resulted in an adjustment of the difference of approximately RMB461,000 between the consideration received and the increase in the carrying amount of the non-controlling interests has been recognised directly in equity. Had the previous accounting policy been applied, this amount would have been recognised in profit or loss. In addition, cash consideration of RMB2,340,000 received from the non-controlling shareholders is presented as cash flow from financing activities.

In addition, under HKAS 27 (Revised), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

HK — Int 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK — Int 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clauses") should be classified by the borrower as current liabilities. The Group has applied HK — Int 5 for the first time in the current year. HK — Int 5 requires retrospective application.

After reviewing the terms of the Group's term loans, the directors of the Company concluded that no reclassification was necessary as the Group's bank and other borrowings did not include such repayment on demand clauses.

Except as described above, 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 Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) — Int 14 (Amendments)	Prepayment of a Minimum Funding Requirement[4]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) *(continued)*

New and revised Standards and Interpretations issued but not yet effective *(continued)*

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures — Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors of the Company do not anticipate the application of the amendments to HKAS 12 will have significant effect on the Group.

HKAS 24 Related Party Disclosures (Revised) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (Revised) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) *(continued)*

New and revised Standards and Interpretations issued but not yet effective *(continued)*

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) — Int 19 will affect the required accounting. In particular, under HK(IFRIC) — Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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

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. Historical cost is generally based on the fair value of the consolidation given in exchange for assets.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When certain assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. 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. Additional losses 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 its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

Investment in subsidiaries

Investments in subsidiaries are carried on the statement of financial position of the Company at cost less impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Interest income from a financial asset excluding financial assets at fair value through profit or loss is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset 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 support, freight and logistics 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.

Non-current asset held for sale

Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current asset classified as held for sale is measured at the lower of its previous carrying amount and fair value less costs to sell.

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, if any.

Construction in progress includes property, plant and equipment in the course of construction for held for use in the production or supply of goods or services, or for administrative purposes and the upfront prepayment of the land use right. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

When the leasehold land and buildings are in the course of development held for use in the production or supply of goods or services, or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and included in the construction in progress and amortised over a straight-line basis over the lease term. Buildings under construction are carried at cost, less any identified impairment loss. 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).

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.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and the building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

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 activities (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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 related company, amount due from an associate, amount due from a shareholder trade and bills receivables, other receivables, refundable deposits, fixed bank 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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).

Impairment of financial assets

Financial assets, 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
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

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 and other 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.

Financial liabilities and equity instruments

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, amount due to an associate, bank and other borrowings and obligation 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivate contract date is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

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 in its entirely, 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.

On derecognition of a financial asset other than in its entirely, (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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 the 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 borrowing costs eligible for capitalisation.

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

Cash and Cash Equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash and short-term deposits as defined above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. 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 judgments, 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.

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 and property, plant and equipment

The Group tested annually whether the deferred development costs and property, plant and equipment 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. No allowance for inventories (2009: RMB19,000) was recognised for the year ended 31 December 2010.

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 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 RMB1,759,000 (2009: RMB47,000) was recognised for the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 35, and cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in Note 37 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 of the Company consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, 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.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**807,752**	740,331
Available-for-sale investment	**18,000**	5,000
Financial liabilities		
Other financial liabilities	**886,106**	726,255
Derivative financial instruments	**681**	—

(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, finance lease receivables, amount due from a related company, trade and bills receivables, other receivables, fixed bank deposits, pledged bank deposit, restricted bank balances, bank balances and cash, obligation under a finance lease, trade and bills payables, amount due to an associate, 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 of the Company 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, fixed bank deposits, restricted bank balances, pledged bank deposits, bank balances and cash, amount due from a shareholder, amount due from an associated and amount due from a related company. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk *(continued)*

The Group's concentration of credit risk by geographical location is mainly in the PRC, which account for more than 90% (2009: more than 90%) of the total trade receivable as at 31 December 2010.

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.

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 71% (2009: 63%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 13% (2009: 13%) 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 end of the reporting period are as follows:

	Liabilities		Assets	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
United States dollars ("USD")	**229,868**	253,332	**259,787**	331,172
Hong Kong dollars ("HKD")	**—**	—	**639**	615

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 is not material.

The following table details the Group's sensitivity to a 5% (2009: 5%) increase or decrease in Renminbi against USD. 5% (2009: 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% (2009: 5%) change in currency rates. A positive number below indicates an increase in post-tax profit where Renminbi strengthen 5% (2009: 5%) against USD. For a 5% (2009: 5%) weakening of Renminbi against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2010 RMB'000	2009 RMB'000
Profit or loss	**1,496**	3,892

The Group's sensitivity to foreign currency has decreased during the current year mainly due to the decrease in foreign currency denominated trade receivables as at 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 finance lease receivables, borrowings and obligation under a finance lease as detailed in Note 24, 35 and 36 respectively. 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, fixed bank deposits and restricted bank balances as detailed in Note 30, bank balances as detailed in Note 31 and variable-rate borrowings as detailed in Note 35. 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 also 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 2010, if interest rates had been increased/decreased by 100 basis points (2009: 100) and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would decrease/increase by approximately RMB831,000 (2009: RMB627,000).

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 2009.

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 2010, the Group had available unutilised bank facilities of approximately RMB388,305,000 (2009: RMB272,748,000).

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 2010

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 31/12/2010 RMB'000
2010							
Non-derivative financial liabilities							
Trade and bills payables	118,152	44,884	8,597	4,880	1,744	178,257	178,257
Other payables and accrued charges	36,437	155	46	2,117	162	38,917	38,917
Amount due to an associate	1,693	—	—	—	—	1,693	1,693
Obligation under finance lease	32	95	—	—	—	127	124
Bank loans							
— fixed rate	69,766	138,386	2,999	213,999	—	425,150	407,396
— variable rate	692	47,188	1,851	175,951	40,184	265,866	218,609
Other borrowings — fixed rate	—	—	—	23,393	22,198	45,591	41,110
	226,772	230,708	13,493	420,340	64,288	955,601	886,106

	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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(continued)*

(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 maturities.

The fair value 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.

Fair value measurements recognised in the consolidated statement of financial position.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e prices) or indirectly (i.e derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 31 December 2010			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	—	681	—	681

There were no transfers between Level 1 and 2 in the current year. Included in the consolidated statement of comprehensive income is a loss of approximately RMB681,000 (2009: Nil) which relates to the change in fair value of the derivative financial instruments at the end of the reporting period.

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's operating segments based on information reported to the Chief Executive, being the chief operating decision maker ("CODM") for the purpose of resources allocation and performance assessment are as follows:

Principal activities 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 leasing and maintenance services for servers and internet value-added services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

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

For the year ended 31 December 2010

	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	432,023	672,207	1,498	1,105,728
Segment profit (loss)	32,738	26,362	(1,148)	57,952
Finance costs				(24,910)
Gain on disposal of available-for-sale investment				181
Fair value gain on financial assets held for trading				40
Gain on deemed disposal of partial interest in an associate				98,952
Chan in fair value of derivative financial instruments				(681)
Net exchange gains				1,404
Share of profit from an associate				6,545
Unallocated interest income				1,116
Profit before taxation				140,599

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

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, finance costs and change in fair value of derivative financial instruments. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

Segment assets	**31/12/2010 RMB'000**	31/12/2009 RMB'000
Server system solutions	**440,504**	478,830
Value-added platform and related components agency distribution	**492,640**	313,970
Leasing of servers and network value-added business	**3,401**	4,142
Total segment assets	**936,545**	796,942
Unallocated	**478,905**	362,124
Asset held for sale	**46,880**	—
Consolidated assets	**1,462,330**	1,159,066

Segment liabilities	**31/12/2010 RMB'000**	31/12/2009 RMB'000
Server system solutions	**79,367**	136,750
Value-added platform and related components agency distribution	**147,052**	94,415
Leasing of servers and network value-added business	**523**	533
Total segment liabilities	**226,942**	231,698
Unallocated	**690,509**	518,039
Consolidated liabilities	**917,451**	749,737

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, fixed bank deposits, pledged bank deposits, restricted bank balances, bank balances and cash. 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 certain corporate office expenses, bank and other borrowings, derivative financial instruments and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Other segment information

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

For the year ended 31 December 2010

	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 (note)	48,394	677	116	49,187
Amortisation of deferred development costs	10,032	—	—	10,032
Deprecation of property, plant and equipment	5,998	133	51	6,182
Gain on disposal of property, plant and equipment	(29)	—	—	(29)
Amortisation of prepaid lease payments	36	—	—	36
Allowance for bad and doubtful debts	1,759	—	—	1,759
Reversal of allowance for other receivables	(866)	—	—	(866)
Reversal of bad and doubtful debt	(1,489)	—	—	(1,489)

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 (note)	106,042	291	197	106,530
Amortisation of deferred development costs	11,590	—	—	11,590
Deprecation 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 debts	(2,530)	(5,000)	(28)	(7,558)

Note: Additions to non-current assets including additions of property, plant and equipment and deferred development costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

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 the 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:

	2010 RMB'000	2009 RMB'000
Geographical market:		
PRC	788,240	742,536
Hong Kong	267,190	53,597
Others	50,298	6,240
	1,105,728	802,373

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

Information about major customers

Revenue from customer A from the value-added platform and related components agency distribution contributed approximately RMB133,289,000 revenue of which contributed over 10% of the total sales of the Group.

There was no customer contributing over 10% of the total sales of the Group in the year 2009.

8. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Repair and network support, freight and logistics service income	5,733	1,742
Government subsidies for technology improvement on servers and development of new technologies (Note a)	3,128	7,939
Interest income on bank deposits	1,116	1,750
Value added tax ("VAT") refunds (Note b)	3,068	2,066
Net exchange gains	1,404	—
Reversal of bad and doubtful debts	1,489	7,558
Reversal of allowance for other receivables	866	—
Reversal of allowance for inventories	—	5,738
Gain on disposal of available-for-sale investment	181	—
Fair value gain on financial assets held for trading	40	517
Gain an disposal of property, plant and equipment	29	—
Others	1,960	1,908
	19,014	29,218

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. There are no other specific conditions needed to be fulfill to retain the government subsidies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on bank and other borrowings wholly repayable within five years	27,114	16,528
Interest on finance lease	30	62
Imputed interest on long-term other borrowings	989	1,134
Total borrowing costs	28,133	17,724
Less: amounts capitalised	(3,223)	(282)
	24,910	17,442

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

On 11 February 2010, the Group's associate, 深圳中青宝互動網絡股份有限公司 ("Powerleader Network") were listed on the Growth Enterprise Market of the Shenzhen Stock Exchange. Powerleader Network made a public offer of 25,000,000 ordinary shares at par value of RMB1 each at an offer price of RMB30. A sum of approximately RMB704,246,000 was raised after deducting the issuing costs. As a result, the Group's equity interest in Powerleader Network was diluted from 20.4% to 15.3%. Since the controlling shareholders of Powerleader Network is Mr. Li Ruijie ("Mr. Li") and Ms. Zhang Yunxia ("Ms. Zhang") who is also the executive directors of the Company. Therefore the Group is able to have significant influence on Powerleader Network and the investment is classified as an interest in an associate even it does not have equity interest more than 20%.

The deemed disposal of partial interest in Powerleader Network resulted on a gain of approximately RMB98,952,000 for the year ended 31 December 2010.

11. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	2,843	4,709
Hong Kong Profits Tax	3,799	74
	6,642	4,783
Over-provision of current tax in prior years:		
Hong Kong Profits Tax	(130)	—
	6,512	4,783
Deferred tax (Note 38)		
Current year	(859)	2,792
Attributable to a change in tax rate	—	(108)
	5,653	7,467

The Company is an enterprise established in Shenzhen Special Economic Zone in the PRC. The Company 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 2010 (2009: 15%). In accordance with the relevant rules and regulations in the PRC, except for 深圳市宝德計算機系統有限公司 ("宝德計算機") and 深圳市宝德軟件發展有限公司 ("宝德軟件"), all other PRC subsidiaries are subject to the EIT rate of 25% (2009: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. INCOME TAX EXPENSE *(continued)*

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 20%, 22%, 24% and 25% for the years 2009, 2010, 2011 and 2012 respectively.

宝德計算機 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. The income tax rate of 10% is applied to 宝德計算機 for the year ended 31 December 2010 (2009: 10%).

Pursuant to an approval document "深國税寶觀減免備案2010 4號" dated 11 May 2009 issued by the State Tax Bureau of Futian District, Shenzhen, 宝德軟件 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 宝德軟件.

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

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	**140,599**	37,182
Tax at EIT rate of 15% (2009:15%) (Note)	**21,090**	5,577
Tax effect of income not taxable for tax purpose	**(15,825)**	(74)
Tax effect of expenses not deductible for tax purpose	**911**	854
Tax effect of tax losses not recognised	**2,088**	2,841
Income tax on concessionary rate	**(2,570)**	(451)
Effect of different tax rate of subsidiaries	**1,071**	(7)
Effect of changing in tax rate	**—**	(108)
Tax effect of share of profit from an associate	**(982)**	(1,165)
Over-provision in respect of prior year	**(130)**	—
Taxation for the year	**5,653**	7,467

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. PROFIT FOR THE YEAR

	2010 RMB'000	2009 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 RMB3,375,000 (2009: RMB2,468,000)	18,590	16,817
— retirement benefits scheme contributions, net of amount capitalised in deferred development cost of RMB121,000 (2009: RMB108,000)	1,551	1,118
	20,141	17,935
Cost of inventories recognised as expenses	983,675	721,058
Research and development cost recognised as expenses	2,239	803
Auditor's remuneration	791	774
Depreciation of property, plant and equipment, net of amount capitalised in deferred development cost of RMB378,000 (2009: RMB226,000)	6,182	5,056
Amortisation of prepaid lease payments	36	36
Amortisation of deferred development costs	10,032	11,590
Allowance for inventories (included in administrative expenses)	—	19
Allowance for bad and doubtful debts (included in administrative expenses)	1,759	47
Loss on disposal of property, plant and equipment	—	883
Bad debts written off	25	478
Net exchange loss	—	1,350
Share of tax of an associate	456	612

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2009: ten) directors were as follows:

For the year ended 31 December 2010

	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 (Chairman)	180	11	3	194
Dong Weiping (Chief Executive) ("Mr. Dong")	315	—	—	315
Ms. Zhang (Note)	15	—	—	15
Ma Zhumao ("Mr. Ma")	180	11	4	195
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	48	—	—	48
Supervisors:				
Chen Zhen Zhi	120	11	5	136
Shu Ling	108	—	4	112
Li Xiaowei	60	—	4	64
	1,218	33	20	1,271

Note: Ms. Zhang's salary and other benefits were borne by Powerleader Network since February 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

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:				
Mr. Li	180	39	3	222
Mr. Dong	315	—	—	315
Ms. Zhang	180	39	—	219
Mr. Ma	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

No emolument was paid by the Group to the directors of the Company as an inducement to joint or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2010 and 2009. None of the directors of the Company have waived any emoluments for the two years ended 31 December 2010 and 2009.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: 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:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**197**	191
Retirement benefits scheme contributions	**3**	4
	200	195

The emoluments of the remaining individual is within the band of nil to HK$1,000,000 (equivalent to RMB850,000) (2009: nil to HK$1,000,000, equivalent to RMB850,000).

No emoluments was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to joint or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period (2009: 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 RMB130,697,000 (2009: RMB27,550,000) and the weighted average number of ordinary shares of 2,257,500,000 (2009: 2,257,500,000) in issue during the year.

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

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2009	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
Additions	1,872	899	1,610	2,518	779	30,913	38,591
Disposals/written off	—	—	(323)	(97)	(228)	—	(648)
At 31 December 2010	78,672	8,605	22,882	7,397	9,245	161,761	288,562
ACCUMULATED DEPRECIATION							
At 1 January 2009	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
Provided for the year	1,490	814	1,638	1,968	650	—	6,560
Eliminated on disposals/ written off	—	—	(291)	(42)	(217)	—	(550)
At 31 December 2010	4,963	1,672	13,368	3,524	4,612	—	28,139
CARRYING VALUES							
At 31 December 2010	73,709	6,933	9,514	3,873	4,633	161,761	260,423
At 31 December 2009	73,327	6,848	9,574	3,378	4,515	130,848	228,490

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%–33.33%
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The carrying values of motor vehicles includes an amount of approximately RMB1,130,000 (2009: RMB1,274,000) in respect of assets held under finance lease.

Details of the pledged property, plant and equipment are set out in Note 35.

The construction in progress is located in the PRC and the Group is in the process of obtaining the land use right certificate for the long-term leasehold land.

18. PREPAID LEASE PAYMENTS

	2010 **RMB'000**	2009 RMB'000
Medium-term leasehold land in PRC	**1,554**	1,590
Analysed for reporting purposes as:		
Current asset	**36**	36
Non-current asset	**1,518**	1,554
	1,554	1,590

19. DEFERRED DEVELOPMENT COSTS

	RMB'000
COST	
At 1 January 2009	61,330
Additions	17,860
At 31 December 2009	79,190
Additions	10,596
At 31 December 2010	89,786
ACCUMULATED AMORTISATION	
At 1 January 2009	31,693
Provided for the year	11,590
At 31 December 2009	43,283
Provided for the year	10,032
At 31 December 2010	53,315
CARRYING VALUES	
At 31 December 2010	36,471
At 31 December 2009	35,907

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 2010, development projects with an aggregate carrying amount of approximately RMB27,194,000 (2009: RMB16,848,000) were not yet available for use and their corresponding costs were not subject to amortisation for the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2010 and 2009 of which all 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	HK$30,000,000	80%	Trading of platform and accessory products and distribution of value added products
深圳市宝騰互聯科技有限公司 ("宝騰互聯")	PRC*	Capital Contribution	RMB10,000,000	75%	Leasing of computer servers
宝德計算機	PRC*	Capital Contribution	RMB38,000,000 (2009: RMB10,000,000)	94.73% (2009: 99.5%)	Manufacture and sales of computer servers and related products
深圳市宝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
深圳市宝德物業發展有限公司	PRC*	Capital Contribution	RMB500,000	99%	Inactive
宝德軟件	PRC*	Capital Contribution	RMB10,000,000	99%	Software development
深圳市宝通志遠科技有限公司 ("志遠")	PRC*	Capital Contribution	RMB10,000,000	99%	Trading of platform and accessory products
宝德濱海科技(天津)有限公司 ("宝德濱海")	PRC*	Capital Contribution	US$13,000,000	100%	Property development

Other than Ex-Channel and 宝德濱海, 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 2010

21. INTEREST IN AN ASSOCIATE

	2010 RMB'000	2009 RMB'000
Cost of investment in a listed associate	**7,166**	7,166
Share of post acquisition profits and reserves, net of dividends received	**130,001**	27,564
	137,167	34,730
Fair value of listed investments	**429,822**	N/A

On 11 February 2010, Powerleader Network was listed on the Growth Enterprise Market of The Shenzhen Stock Exchange ("Listing"). Powerleader Network made a public offer of 25,000,000 ordinary shares at par value of RMB1 each at an offer price of RMB30. A sum of approximately RMB704,246,000 was raised after deducting the issuing costs. The shareholding held by of the Group in Powerleader Network was then diluted from 20.4% to 15.3% following the Listing.

	2010 RMB'000	2009 RMB'000
Total assets	**930,417**	186,599
Total liabilities	**(32,530)**	(16,354)
Net assets	**897,887**	170,245
Group's share of net assets of an associate	**137,377**	34,730
Revenue	**79,921**	77,449
Profit for the year	**36,887**	38,067
Group's share of result of an associate for the year	**6,545**	7,765

As at 31 December 2010 and 2009, 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	15.3% (2009: 20.4%)	15.3% (2009: 20.4%)	Provision of on-line game services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

22. AVAILABLE-FOR-SALE INVESTMENT

	2010 RMB'000	2009 RMB'000
Unlisted equity securities	18,000	5,000

The above investment represents an investment in 18% (2009: 5%) unlisted equity interests in a private entity established in the PRC for the principal purpose of a development project in 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.

23. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	48,788	48,524
Work in progress	5,533	4,926
Finished goods	94,523	50,344
	148,844	103,794

24. 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Finance lease receivables comprise: Within one year	141	173	141	173
Present value of minimum lease payments receivable as current assets	141	173	141	173

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company (as detailed in Note 44) 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 ("速必拓") RMB'000
Balance as at 31 December 2010	1,977
Balance as at 31 December 2009	3,194
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.

26. AMOUNT DUE FROM/(TO) AN ASSOCIATE

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

27. AMOUNT DUE FROM A SHAREHOLDER

Amount due from a shareholder (as detailed in Note 44) 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 2010	—
Balance as at 31 December 2009	77
Maximum amount owed to the Company during the year	77

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. TRADE AND BILLS RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	333,048	256,153
Less: allowance for doubtful debts	(5,488)	(5,243)
	327,560	250,910
Bills receivables	9,064	1,523
	336,624	252,433
Discounted bills receivables with recourse	48,359	75,007
	384,983	327,440

The bills receivables for both 2010 and 2009 are aged within three months.

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

	2010 RMB'000	2009 RMB'000
Within 1 month	192,551	103,837
1–3 months	103,212	44,219
4–6 months	14,901	55,872
Over 6 months	25,960	48,505
	336,624	252,433

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB40,729,000 (2009: RMB97,963,000) which are past due at the end of the reporting period 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 (2009: 180 days).

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

	2010 RMB'000	2009 RMB'000
Within 1 month	5,147	16,585
1–3 months	10,823	40,279
4–6 months	8,082	21,814
6 months–1 year	6,294	13,881
1–2 years	10,383	5,404
	40,729	97,963

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 end of the reporting period. In view of the good settlement repayment history from those largest debtors of the Group, the directors of the Company consider that there is no further credit provision required in excess of the impairment loss recognised for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. TRADE AND BILLS RECEIVABLES *(continued)*

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
Balance at beginning of the year	5,243	12,754
Allowance recognised on receivables	1,759	47
Amount written off as uncollectible	(25)	—
Amount recovered during the year	(1,489)	(7,558)
Balance at end of the year	5,488	5,243

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB5,488,000 (2009: RMB5,243,000) which have been in financial difficulties. The Group does not hold any collateral over these balances.

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

	2010 RMB'000	2009 RMB'000
USD	149,708	214,842

29. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010 RMB'000	2009 RMB'000
Rebate receivables	4,645	15,167
Other receivables	73,795	64,727
Prepayments	5,239	7,354
Deposits paid	473	2,219
	84,152	89,467

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

	2010 RMB'000	2009 RMB'000
USD	7,777	18,096
HKD	226	301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

30. FIXED BANK DEPOSITS/PLEDGED BANK DEPOSITS/RESTRICTED BANK BALANCES

At 31 December 2010, fixed bank deposits represent fixed deposits at a bank with maturity more than three months (2009: Nil). These deposits carry interest at 2.2% per annum.

At 31 December 2010, pledged bank deposits represented approximately RMB23.0 million deposit pledged to banks to secure short-term bank loans of RMB24.0 million and RMB7.0 million pledged to banks to secure general banking facilities of RMB35.0 million and are therefore classified as current assets. These deposits carry interest at 0.87% to 2.5% per annum.

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 RMB30.5 million pledged to banks to secure general banking facilities of RMB47.8 million and were therefore classified as current assets. These deposits carry interest at 0.63% to 2.25% per annum.

At 31 December 2010 and 2009, 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% (2009: 0.36%) per annum, and will be released upon the completion of the respective transactions.

At 31 December 2010, pledged bank deposits of approximately RMB30,689,000 (2009: RMB13,853,000) and restricted bank balances of approximately RMB5,658,000 (2009: RMB2,312,000) were originally denominated in USD.

31. BANK BALANCES

Bank balances carry interest at market rates which range from 0.36% to 2.25% (2009: 0.01% to 1.98%) per annum.

At 31 December 2010, bank balances of approximately RMB11,759,000 (2009: RMB82,069,000) and RMB413,000(2009: RMB314,000) were originally denominated in USD and HKD respectively.

32. ASSET HELD FOR SALE

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 深圳市潮商小額貸款有限公司 Mini Credit of Shenzhen Chaoshang Commence Chambe Co., Limited ("Mini Credit"). Mini Credit was owned by the Company and the JV Partners as to RMB47 million (30.07%) and RMB108 million (69.93%) respectively. Mini Credit is recognised at cost. Mini Credit is principally engaged in micro-financing and consultancy services for the development, management and financial affairs of small and medium enterprises.

During the fourth quarter of the year, the directors of the Company planned to dispose of Mini Credit and focus on the Group's activities in the cloud computing business.

On 17 February 2011, the directors of the Company entered into a share transfer agreement to dispose of all its equity interest in Mini Credit to Powerleader Investment at a consideration of approximately RMB56,880,000. The Group expects to complete the disposal in April 2011. The net proceeds of the disposal exceeds the carrying amount of related cost of investment and, accordingly, no impairment loss was recognised, neither when the operation was reclassified as held for sale nor at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. TRADE AND BILLS PAYABLES

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

	2010 RMB'000	2009 RMB'000
Within 1 month	**72,510**	87,987
1–3 months	**44,884**	46,271
4–6 months	**8,597**	3,791
Over 6 months	**6,623**	2,826
	132,614	140,875
Bills payables	**45,643**	50,000
	178,257	190,875

The average credit period on purchases of goods was ranging from one to six 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 payables that are denominated in currencies other than functional currency of the Group are set out below:

	2010 RMB'000	2009 RMB'000
USD	**116,368**	62,199

34. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 RMB'000	2009 RMB'000
Derivatives financial liabilities not under hedge accounting consists of the fair value of foreign currency forward contracts and are analysed for reporting purposed as follows:		
Current	**681**	—

The derivatives are measured with reference to exchange rates from financial instruments for equivalent instruments.

The Group has entered into a forward contract denominated in USD and RMB. The major terms of the foreign contracts outstanding at the end of the reporting period are as follows:

Notional amount	Maturity	Exchange rates
Sell RMB-total 24,022,459	2 August 2011 to 21 November 2011	USD1: RMB6.4665 to USD1: RMB6.7270

The loss arising from change in fair value of the foreign currency contract for the year ended 31 December 2010 was approximately RMB681,000 (2009: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

35. BANK AND OTHER BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank loans	**626,005**	431,133
Other borrowings	**41,110**	68,122
	667,115	499,255
Secured loans	**99,146**	219,512
Unsecured loans	**567,969**	279,743
	667,115	499,255
Carrying amount repayable:		
On demand or within one year	**607,449**	383,382
More than one year, but not exceeding two years	**47,333**	60,437
More than two years, but not exceeding five years	**12,333**	55,436
	667,115	499,255
Less: Amount due within one year shown under current liabilities	**(607,449)**	(383,382)
Amount due after one year	**59,666**	115,873

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2010 were as follows:

(a) The loans with an aggregate principal amount of approximately RMB15 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 loans with an aggregate amount of RMB290 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(c) The loan with a principal amount of RMB30 million was secured by a deposit of approximately RMB1.8 million and was guaranteed by Powerleader Investment and Ex-channel, and personal guarantee given by Mr. Li.

(d) The loan with a principal amount of RMB54 million was guaranteed by Powerleader Investment, 宝德計算機 and personal guarantee given by Mr. Li.

(e) The loan with a principal amount of RMB24 million was secured by bank deposits of approximately RMB23 million and guaranteed by the Company and 宝德計算機.

(f) The loan with an aggregate amount of RMB95 million was guaranteed by Powerleader Investment, Ex-channel, 宝德計算機 and personal guarantee given by Mr. Li.

(g) The loan with an aggregate amount of RMB20 million was guaranteed by Powerleader Investment.

(h) The loan with an aggregate amount of RMB48 million was secured by discounted bills receivables of RMB48 million.

At the end of the reporting period, the bank loans of approximately RMB257.3 million (2009: RMB258.4 million) were subject to variable annual interest rates ranging from 5.00% to 7.20% (2009: 1.28% to 7.20%) and the bank loans of RMB368.7 million (2009: RMB172.7 million) were subject to fixed annual interest rates ranging from 4.99% to 5.58% (2009: 1.14% to 5.31%). The fixed rate bank loans are all with maturity within one year.

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35. 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 aggregate 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, 宝德計算機, 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.

(i) The loan with an aggregate amount of RMB75 million was secured by discounted bills receivables of RMB75 million.

During the year ended 31 December 2009, 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.

Details of the other borrowing as at 31 December 2009 and 2010 were as follows:

Other borrowing represents, a 5-year loan with principal amount of RMB 70 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 RMB21 million and RMB21 million shall be paid on 14 November 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 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 certain buildings of the company with an aggregate carrying amount of approximately RMB67 million for 2010 and 2009 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:

	2010 **RMB'000**	2009 RMB'000
USD	**58,483**	191,133

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For the year ended 31 December 2010

36. 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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Amounts payable under a finance lease:				
Within one year	**127**	379	**124**	349
In more than one year but not more than two years	**—**	127	**—**	124
	127	506	**124**	473
Less: Future finance charges	**(3)**	(33)	**N/A**	N/A
Present value of lease obligations	**124**	473	**124**	473
Less: Amount due for settlement within one year			**(124)**	(349)
Amount due for settlement after one year			**—**	124

The Group has leased a motor vehicle under a finance lease during the year ended 31 December 2009. 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 a finance lease is secured by the lessor's charge over the leased asset.

Financial lease obligation is denominated in RMB.

37. SHARE CAPITAL

	Number of shares	RMB'000
Registered, issued and fully paid		
Domestic shares of RMB0.1 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 2009 and 31 December 2010	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.

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For the year ended 31 December 2010

38. 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 2009	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
Charged (credited) to profit or loss	2	(2,809)	978	970	(859)
At 31 December 2010	11	5,479	(904)	(1,225)	3,361

At 31 December 2010, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of approximately RMB42,610,000 (2009: RMB28,753,000) available to offset against future profits. A deferred tax asset has been recognised in respect of RMB8,167,000 (2009: RMB9,030,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB34,443,000 (2009: RMB19,723,000) 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 consolidated 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:

	2010 RMB'000	2009 RMB'000
Deferred tax liabilities	**(3,361)**	(4,220)

39. OPERATING LEASE COMMITMENTS

The Group as lessee

	2010 RMB'000	2009 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	**2,236**	1,888

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:

	2010 RMB'000	2009 RMB'000
Within one year	**3,082**	1,321
In the second to fifth year inclusive	**932**	552
	4,014	1,873

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

39. OPERATING LEASE COMMITMENTS *(continued)*

The Group as lessor

Rental income from leasing of computer servers earned during the year was approximately RMB66,000 (2009: RMB88,000). Only servers of a subsidiary of the Company are held for rental purposes. They are expected to generate rental yields of 7% (2009: 7%) on an ongoing basis. All of the servers held for rental purpose have committed tenants for the next one year.

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

	2010 **RMB'000**	2009 RMB'000
Within one year	**2**	11

40. CAPITAL COMMITMENTS

Capital commitments contracted but not provided for in respect of:

	2010 **RMB'000**	2009 RMB'000
Construction-in-progress	**98,812**	6,276

41. 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 RMB1,551,000 (2009: RMB1,118,000) represents contribution payable to these schemes by the Group in respect of the current accounting year. As at 31 December 2010, contributions of approximately RMB84,000 (2009: RMB45,000) due in respect of the year ended 31 December 2010 had not been paid. The amounts were paid subsequent to the end of the reporting period.

42. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2009, the non-controlling 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 was regarded as the deemed capital contributed by the non-controlling shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

43. EVENTS AFTER THE REPORTING PERIOD

a) On 14 January 2011, the Company entered into the share transfer agreement with Powerleader Investment pursuant to which Powerleader Investment agreed to sell and the Company agreed to purchase 0.47% equity interest of 宝德計算機, 1% equity interest of 志遠, 1% equity interest of 宝德軟件 and 25% equity interest of 寶騰互聯 for a consideration of RMB200,000, RMB180,000, RMB300,000 and RMB2,000,000 respectively. Details are set out in the Company's announcement dated 14 January 2011.

b) On 28 January 2011, the Company and Jinbo Litong, Jiachuang Lianhe and Zhizheng Lida (the "Subscribers") entered into a subscription agreement pursuant to which the Subscribers agreed to subscribe an aggregate of 172,500,000 new domestic shares at the subscription price of RMB0.25. The net proceeds from the subscription is estimated to be approximately RMB42,625,000.

   The subscription shares represent approximately 7.64% of the existing issued share capital of the Company. Details are set out in the Company's announcement dated 28 January 2011.

c) On 17 February 2011, Powerleader HK, a wholly-owned subsidiary of the Company entered into a share transfer agreement ("Share Transfer Agreement 1") with Mr. Dong to which Mr. Dong agreed to sell 10% equity interest of Ex-Channel to Powerleader HK at a consideration of HK$8,800,000. On the same date, Powerleader HK entered into another share transfer agreement (together with Share Transfer Agreement 1, collectively known as "Ex-channel share Transfer Agreements") with Top Pioneer Limited, a company in which Mr. Li has beneficial interest agreed to sell 10% equity interest of Ex-Channel to Powerleader HK at a consideration of HK$8,800,000.

   Upon completion of the Ex-Channel Share Transfer Agreement, Ex-Channel will be wholly-owned by Powerleader HK.

   On the same date, the Company and Powerleader Investment entered into another share transfer agreement pursuant to which the Company agreed to sell 30.07% equity interest of Mini Credit at a consideration of approximately RMB56,880,000 to Powerleader Investment.

   Details are which set out in the Company's announcement dated 17 February 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

44. 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 25, 26 and 27 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 2010 and 2009, 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 borrowing granted to the Group. Details of these are set out in Note 35.

(b) At 31 December 2010 and 2009, 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 35.

(c) At 31 December 2010 and 2009, the unutilised bank facilities of approximately RMB388,305,000 (2009: RMB272,748,000) were either guaranteed or jointly guaranteed by the following related parties.

	2010 RMB'000	2009 RMB'000
Directors		
— Mr. Li	358,305	262,491
— Ms. Zhang	74,720	188,848
— Mr. Dong	39,720	51,348
Related company:		
— Powerleader Investment	348,585	221,400

(d) During the year, the Group had made sales amounted to approximately RMB5,785,000 (2009: RMB5,245,000) to Powerleader Network and received rental income of approximately RMB49,500 (2009: Nil) from Powerleader Network.

(e) During the year, the Group had made sales amounted to approximately RMB9,810 (2009: RMB680,000) to 速必拓.

(f) During the year, the Group paid rent amounted to approximately RMB279,000 (2009: RMB279,000) to Ms. Zhang for its office premises.

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

(h) During the year ended 31 December 2010, Ex-Channel paid a dividend of RMB868,000 to Mr. Dong and Top Pioneer Limited, a company of which Mr. Li has beneficial interest respectively.

(i) During the year ended 31 December 2009, non-controlling shareholders of a subsidiary of the Group, namely Mr. Dong and Top Pioneer Limited, a company of which Mr. Li has beneficial interest waived their dividend entitlement in the amount of RMB6,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 RMB'000	2009 RMB'000
Non-current assets		
Property, plant and equipment	**94,380**	93,260
Prepaid lease payments	**1,518**	1,554
Deferred development costs	**13,949**	14,150
Investments in subsidiaries	**46,827**	46,827
Interest in an associate	**137,167**	34,730
Available-for-sale investment	**18,000**	5,000
Prepayment for acquisition of buildings	**—**	1,870
	311,841	197,391
Current assets		
Prepaid lease payments	**36**	36
Inventories	**17,984**	9,528
Amounts due from subsidiaries — due within one year (note)	**360,497**	323,787
Amount due from an associate (note)	**28**	6
Trade receivables	**87,846**	18,212
Other receivables, deposits and prepayments	**51,566**	71,259
Pledged bank deposits	**2,820**	88,581
Restricted bank balances	**6,389**	4,102
Bank balances and cash	**136,635**	23,272
	663,801	538,783
Asset held for sale	**46,880**	—
	710,681	538,783
Current liabilities		
Trade and bills payables	**20,638**	57,503
Other payables and accrued charges	**15,434**	12,628
Amounts due to subsidiaries — due within one year (note)	**81,214**	20,694
Receipts in advance	**3,638**	2,712
Tax payable	**3,152**	3,152
Bank and other borrowings — due within one year	**501,043**	278,375
Obligation under a finance lease — due within one year	**124**	349
	625,243	375,413
Net current assets	**85,438**	163,370
	397,279	360,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

	2010 RMB'000	2009 RMB'000
Capital and reserves		
Share capital (Note 37)	**225,750**	225,750
Reserves (Note 46)	**146,863**	64,014
	372,613	289,764
Non-current liabilities		
Bank and other borrowings — due after one year	**24,666**	70,873
Obligation under a finance lease — due after one year	**—**	124
	24,666	70,997
	397,279	360,761

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

46. RESERVES OF THE COMPANY

	THE COMPANY		
	Statutory surplus reserve RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2009	30,523	21,752	52,275
Profit for the year	—	11,739	11,739
At 31 December 2009	30,523	33,491	64,014
Profit for the year	—	82,849	82,849
At 31 December 2010	30,523	116,340	146,863

(a) Basis of appropriation 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.

FINANCIAL SUMMARY

	Year ended 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	**1,105,728**	802,373	810,674	1,150,536	981,862
Profit before taxation	**140,599**	37,182	56,625	61,751	29,695
Taxation	**(5,653)**	(7,467)	(3,371)	(3,567)	(2,847)
Profit for year	**134,946**	29,715	53,254	58,184	26,848
Attributable to:					
Equity holder of the Company	**130,697**	27,550	50,015	52,950	21,873
Non-controlling interests	**4,249**	2,165	3,239	5,234	4,975
	134,946	29,715	53,254	58,184	26,848

	At 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Assets and liabilities					
Total assets	**1,462,330**	1,159,066	759,742	653,875	485,680
Total liabilities	**(917,451)**	(749,737)	(386,268)	(331,295)	(213,680)
Non-controlling interests	**(21,015)**	(15,701)	(12,196)	(11,317)	(13,687)
Shareholders' funds	**(523,864)**	(393,628)	(361,278)	311,263	258,313